PHILIP **KOTLER**
KEVIN LANE **KELLER**
ALEXANDER **CHERNEV**

MARKETING MANAGEMENT

17th Edition

Marketing Management

Seventeenth Edition

Philip Kotler
Northwestern University

Kevin Lane Keller
Dartmouth College

Alexander Chernev
Northwestern University

Pearson

Library of Congress Cataloging-in-Publication Data

$PrintCode

Pearson

Rental Edition:
ISBN 10: 0-13-807627-8
ISBN 13: 978-0-13-807627-6

Print Offer:
ISBN 10: 0-13-807625-1
ISBN 13: 978-0-13-807625-2

This book is dedicated to my wife and best friend, Nancy, with love.

—PK

This book is dedicated to my wife, Punam, and our two daughters, Carolyn and Allison, with much love and thanks.

—KLK

This book is dedicated to my parents, Irina and Christo, with love and gratitude.

—AC

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Preface

The 17th edition of *Marketing Management* builds on the classic examples, core concepts, and logical structure that made the first edition a landmark text. Much has changed since previous editions were published. Ongoing globalization; the increasing role of corporate social responsibility; advances in technology, e-commerce, and digital communication; the growing impact of social media, and the widespread use of data analytics, marketing automation, and artificial intelligence have disrupted many industries and have opened doors to new business models. Responding to these changes, the 17th edition has been updated and revised to provide managers with the tools necessary to succeed in the new market environment.

Marketing Management owes its success to its maximization of three dimensions of marketing coverage: depth, breadth, and relevance. The *depth* includes its solid academic grounding; its examination of important theoretical concepts, models, and frameworks; and its ability to provide conceptual guidance to solve practical problems. The *breadth* reflects the wide range of topics addressed in the book and its emphasis on those topics that are most crucial to marketing management. The *relevance* is embodied by the ability of this book to identify the issues commonly faced by managers and present the material in a way that enables them to develop successful strategies to address these issues.

The 17th edition builds on the fundamental strengths of past editions that distinguish *Marketing Management* from all other marketing management texts:

- **Managerial orientation.** The text focuses on the major decisions that marketing managers and top management face in their efforts to harmonize the organization's objectives, capabilities, and resources with marketplace needs and opportunities.
- **Analytical approach.** The text presents conceptual tools and frameworks for analyzing recurring problems in marketing management. Cases and examples illustrate effective marketing principles, strategies, and practices.
- **Multidisciplinary perspective.** *Marketing Management* draws on the rich findings of various scientific disciplines—such as economics, behavioral science, and management theory—for fundamental concepts and tools that are directly applicable to marketing challenges.
- **Universal applications.** The text applies strategic thinking to the complete spectrum of marketing: products, services, persons, places, information, ideas, and causes; consumer and business markets; profit and nonprofit organizations; domestic and foreign companies; small and large firms; manufacturing and intermediary businesses; and low- and high-tech industries.
- **Comprehensive and balanced coverage.** *Marketing Management* covers the topics a manager must understand to design and execute a successful marketing campaign.

What's New in the 17th Edition

Please note that all eText assessments, videos, and other interactive media items are only available in the Pearson+ eText, which is available both for standalone purchase as well as part of a MyLab subscription.

The overriding goal of the revision for the 17th edition of *Marketing Management* was to create a comprehensive, current, and engaging marketing text. We streamlined the organization of the content, added new material, cut or updated older material, and deleted material that was no longer relevant or necessary. The 17th edition allows those instructors who have used previous editions to build on past experience, while at the same time offering a text that is unsurpassed in breadth, depth, and relevance for students experiencing *Marketing Management* for the first time.

Updated Chapter Content

Due to the major reorganization in the previous edition, this edition maintains the same structure but focuses on updating content to align with the latest market realities. For example, we have significantly reimagined the first chapter, "Defining Marketing for the New Realities," to more accurately capture the essence of marketing in today's business environment. Chapter 10 includes new sections on brand valuation, packaging, labels, developing programs and activities, brand architecture, brand dynamics, and brand revitalization. A new section in Chapter 11 covers inflationary environments. Additionally, Chapter 21 "Environmental, Social, and Governance Issues in Marketing" (previously "Socially Responsible Marketing" in the 16th edition) has been rewritten to more comprehensively address marketing's broader societal impacts. The content in the remaining chapters has also been updated for both current relevance and improved readability, while retaining the overall chapter organization and academic rigor as presented in the 16th edition.

Updated and New Chapter Features

We retained the hallmark features that provide an engaging learning experience, including topical chapter openers, in-text examples, current noteworthy companies and issues, and the Marketing Insight and Marketing Spotlight features that illustrate the key concepts and enhance the relevance of the theoretical discussion.

There are many new vignettes, detailed examples, Insights, and Spotlights and all NEW "AI and Marketing" boxes, including the following:

- **New and existing chapter-opening vignettes** offer real-world marketing examples providing motivation and context for the chapter. Among 13 new chapter openers are vignettes featuring Barbie, Ozempic, AMD, SKIMS, and Ford-150.
- **New and existing real-world examples** throughout chapters illustrate key concepts. Almost 100 new in-text boxes have been added on a wide range of companies and brands, including Open AI (Chapter 1), Nestle (Chapter 1), Orsted (Chapter 1), Bombas (Chapter 1), Panda Express (Chapter 2), Irish White Fish (Chapter 3), Post-Pandemic Consumer Behavior (Chapter 3), Canva (Chapter 4), Incredible Health (Chapter 4), Share of Search (Chapter 5), Danone (Chapter 5), Valkyrie Mountain Wear (Chapter 6), Disney (Chapter 6), Lululemon (Chapter 7), Gap (Chapter 8), NuBank (Chapter 9), Liquid Death (Chapter 10), Coach (Chapter 11), Jersey Mike's (Chapter 12), Snickers (Chapter 12), Covonia (Chapter 12), Unilever (Chapter 12), James Bond franchise (Chapter 13), Mr. Weston (Chapter 14), Ace Hardware (Chapter 15), Walmart (Chapter 16), PRS Guitars (Chapter 17), Everly Health (Chapter 18), Roblox (Chapter 19), TAG Heuer (Chapter 20), and Bud Light (Chapter 21).
- **New and existing Marketing Insight boxes** elaborate on select topics. New boxes cover Managing Emotions in Business Marketing, Designing Service Blueprints, and Influencer Marketing.
- **New "AI and Marketing" boxes** throughout detail the importance and impact of AI in marketing. Fourteen new boxes provide insights and guidelines on using AI effectively across a range of marketing topics.
- **New and existing Marketing Spotlight boxes**, with critical-thinking questions, provide thoroughly up-to-date profiles of prominent companies whose work reflects chapter concepts and exhibits marketing excellence. Spotify, Accenture, LinkedIn, Levi's and Netflix are among the 16 new companies of the 42 companies featured in all.

Part	Chapter	Marketing Spotlights
Part 1: Fundamentals of Marketing Management	Chapter 1: Defining Marketing for the New Realities	Microsoft
Part 2: Understanding the Market	Chapter 3: Analyzing Consumer Markets	Spotify
	Chapter 4: Analyzing Business Markets	Accenture
Part 3: Developing a Viable Market Strategy	Chapter 6: Identifying Market Segments and Target Customers	Toyota
	Chapter 7: Crafting a Customer Value Proposition and Positioning	LinkedIn
Part 4: Designing Value	Chapter 8: Designing and Managing Products	Cisco
	Chapter 10: Building Strong Brands	BMW
Part 5: Communicating Value	Chapter 12: Managing Marketing Communications	Levi's
	Chapter 13: Designing an Integrated Marketing Campaign in the Digital Age	Coca-Cola McDonald's
Part 6: Delivering Value	Chapter 15: Designing and Managing Distribution Channels	Costco
	Chapter 16: Managing Retailing	Amazon
Part 7: Managing Growth	Chapter 18: Developing New Market Offerings	Virgin Samsung
	Chapter 20: Tapping into Global Markets	HSBC
	Chapter 21: Environmental, Social, and Governance Issues in Marketing	Patagonia

Solving Learning and Teaching Challenges

Many students who take a marketing management course are creative and have strong communication skills. However, students often have difficulty developing marketing plans that blend time-tested marketing approaches with modern marketing tools to both generate new customers and maintain existing customers. The new edition of *Marketing Management* addresses these challenges by reflecting changes in marketing theory and practice and providing relevant examples from a variety of industries.

This edition prepares students to work in today's environment as companies increasingly (1) shift gears from managing product and service portfolios to managing *customer* portfolios; (2) move from stand-alone mass products to integrated and customized product and service solutions; (3) use data analytics and artificial intelligence to better create and capture customer value; (4) use social media in addition to traditional advertising to promote their offerings; (5) improve their methods of measuring customer profitability and customer lifetime value; (6) focus on measuring the return on their marketing investment and its impact on shareholder value; and (7) concern themselves with the environmental, social, and ethical implications of their marketing decisions.

To address all these different shifts, the 17th edition is organized to specifically describe and interpret the following seven functions that constitute modern marketing management in the 21st century.

1. Developing a strategic marketing plan
2. Understanding the market and capturing market insights
3. Creating winning marketing strategies
4. Designing viable market offerings
5. Crafting impactful communication campaigns
6. Developing effective distribution channels
7. Managing growth in a socially responsible way

As companies change, so does their marketing organization. Marketing is no longer a company department charged with a limited number of tasks; it is a company-wide undertaking. It drives the company's mission, vision, and strategic planning. Marketing includes decisions like deciding whom the company wants as its customers, which customer needs to satisfy, what products and services to offer, what prices to set, what communications to send and receive, what channels of distribution to use, and what partnerships to develop.

Pedagogy That Emphasizes Real-World, Relevant Marketing Examples

Effective learning occurs when sound theory is complemented by relevant practical examples. To this end, the 17th edition includes a variety of features—chapter-opening vignettes, in-text examples, Marketing Insights, AI and Marketing boxes, and Marketing Spotlights—designed to engage students by highlighting the practical application of the concepts covered in each chapter.

- Each chapter opens with a relevant real-world marketing example that engages students and sets the context of the chapter.
- Each chapter includes a number of in-text features with additional timely marketing examples to illustrate key concepts within sections.
- New AI and Marketing boxes in most chapters detail the impact of AI and recommended approaches to incorporating AI into marketing activities.

AI and Marketing: The Marketing Communications Mix

Technological advances have fueled the emergence of social media and mobile platforms, fundamentally transforming marketing communications for companies. Artificial intelligence (AI) is yet another digital transformation that will profoundly change how marketers communicate with consumers. Tech giants such as Alphabet, Meta, Microsoft, and Amazon are driving the shift to using generative AI in company marketing endeavors, introducing products that enable marketers to more easily create messages, images, and videos for various tech platforms.

AI is thus playing a more prominent role in digital marketing, as well as many other areas of marketing communications. AI creates new opportunities for marketers to add innovative elements to their marketing communications mix. Consider these applications:

- One of the major trends in marketing in recent years has been the growth of the creator economy and the rise of online influencers, a massive multi-billion-dollar industry. Partly as a response to rising costs and concerns with ROI, some marketers are creating virtual influencers by using AI to inexpensively generate humanlike text, images, and code. AI has been used to create realistic virtual influencers to support brands such as KKW Beauty, H&M, and Louis Vuitton. One of the first virtual influencers, Lil Miquela, seen by many of her fans as being of mixed race, has been employed to promote such cross-cultural global brands as Burberry, Prada, and Givenchy. Although virtual influencers are viewed as helpful to draw attention to a brand and convey useful information, there is also a belief that they may not be able to create as strong an emotional bond as might be the case with a human influencer.
- AI-powered smart carts in supermarkets and grocery stores are displaying dynamic ads and information on cart screens throughout a shopping trip. Deals and seasonal product promotions are displayed at the beginning of the consumer's shopping trip. The use of computer vision and AI to identify items placed in the smart cart subsequently allows personalized real-time recommendations during shopping. For example, if consumers place ice cream cones in their cart, suggestions for Dreyer's ice cream might appear on their screen.
- Product placement in TV programs, movies, and elsewhere has been used by marketers for decades to ensure that consumers are exposed to their brands, ideally in a favorable light. AI technology can now be used to seamlessly insert realistic-looking versions of branded products into almost any type of filmed scenes, including YouTube, TikTok, and other videos. For example, a bag of M&Ms candy was digitally added to a bowl on a table in an episode of the Amazon TV series *Bosch*; a realistic-looking poster for Bubly sparkling water was added to the wall of the apartment of a social influencer in a TikTok video.
- Brands are inviting consumers to co-create with them using AI, yielding new forms of media. In a 2023 campaign titled "Create Real Magic," Coca-Cola invited fans to use an AI platform to create new artistic renderings of its iconic brand elements like the curved bottle and stylized script logo. Select submissions were showcased on billboards in New York's Times Square and London's Picadilly Circus.
- Companies are also harnessing the power of AI to create compelling experiences that span the digital and real worlds. World Wildlife Fund (WWF) Germany used AI models to re-create famous landscape paintings like Monet's *Water Lilies* to dramatize what those settings would look like in the year 2100 based on real climate change data. They then mounted an in-person exhibition, complemented by an online gallery, where visitors could interact with the re-created landscapes to see the toll of climate change over the next 80 years. The campaign won Cannes Lion and Clio awards.

AI applications are finding their way into virtually all aspects of marketing communications, offering marketers innovative methods to build their brands, connect with consumers, and drive sales. These technologies enable personalized customer experiences at scale, fundamentally transforming how companies interact with their audience across the marketing mix.[9]

- A Marketing Insight feature addressing a specific marketing topic in greater detail is also included in each chapter to provide in-depth coverage and foster better understanding of this topic.

Marketing Insight

Influencer Marketing

Informal social influence has affected the purchases that consumers make for centuries. But with the advent of the internet and the growth of social media, the commercial use of paid social influencers has exploded. Many advertisers are now spending a significant part of their digital communication budget on social influencers, who have become a particularly important part of marketing in many product categories such as beauty products, clothing, food, and technology. Social influencers have also become a particularly important means to reach Millennials and Gen Z consumers.

Marketers consider a number of factors when choosing influencers. One comprehensive research study showed that the effectiveness of social influencers was a function of their originality, follower size, and sponsor salience (i.e., the extent to which the sponsor brand is prominent in a post). The research found that social influencers were less effective, however, in announcing new product launches, presumably in part because of the uncertainty involved with unknown products.

Rates that social influencers can charge depends on a number of factors—follower size, number and timing of deliverables, number of platforms employed, and extent of exclusivity and format of created content (e.g., text, images, and/or video). Short video posts and stories are the most popular medium for marketers. Mega-influencers—those with more than 1 million followers—can cost about $15,000 per deal on Instagram, although $5,000 to $10,000 may be more typical. TikTok influencers are often less expensive.

Although TikTok has emerged as an appealing option for many marketers, it does present challenges. On the plus side, it offers the opportunity for high levels of engagement and sharing. Its effectiveness was reflected in the popularity of the hashtag "#TikTokMadeMeBuyIt." Overtly commercial messages on TikTok, however, are often not well received, as reinforced by the platform's credo, "Don't Make Ads, Make TikToks." Original content is key —for example, TV ads cannot just be repurposed—and posting proprietary content and building organic followings can be more difficult than on Instagram and X/Twitter.

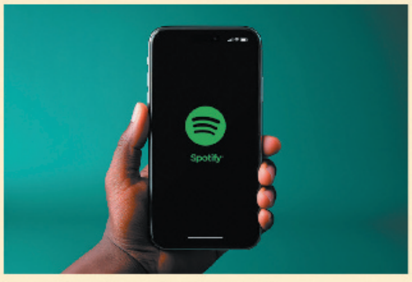
Enlisting a creator as part of a social influence campaign does have its downsides. Some brands feel the influencer market has become overpriced and oversaturated, believing it is difficult to achieve authenticity with paid influencer campaigns. Nevertheless, there are many examples of different types of influencer marketing campaigns that have been well received in the marketplace, including the following:

- Neutrogena tapped into influencers (and former reality dating series contestants) to participate in a "Hydro House" TikTok series to highlight its Hydro Boost facial cleanser in a less overtly commercial setting.
- L'Oréal assembled an army of industry-expert influencers and popular digital creators to support its dermatologist-developed CeraVe skin care brand via a creative social media content strategy across platforms.
- Moving away from well-known chef influencers, Tabasco leveraged TikTok lifestyle creator Christina Najjar's (aka Tinx) widely known love for the brand—and her 1.5 million followers—to partner on a special hot sauce salad dressing targeting Gen Z and Millennials.
- Starbucks employed freestyle rapper Harry Mack to recommend flavors of its at-home coffee products to consumers in live-streamed videos on Twitch and video posts on TikTok and Instagram.

- Two Marketing Spotlight features per chapter use an admired real-world company to reflect marketing concepts and illuminate best practices. These comprehensive mini-case studies profile the history and development of the marketing at these top companies and some of the opportunities and challenges they have faced. Discussion questions and autoscored multiple choice questions are provided at the end of each spotlight to give students an opportunity to confirm their understanding and apply critical thinking.

Marketing Spotlight

Spotify



Source: Diego Thomazini/Shutterstock

When Spotify launched in 2008, there were significant reasons to expect a new digital music entrant would not succeed. Illegal file-sharing had severely eroded the music industry business model, as global recorded music income declined from $26.6 billion in 1999 to $18.3 billion in 2008. As a result, record labels still largely viewed digital music as an existential threat to be contained, rather than expanded.

By focusing on convenience, selection, personalization, and value, Spotify beat the odds and by 2012 was the largest digital music streaming service, with 15 million monthly active users, 4 million paying subscribers and over $500 million in

The preceding features capture many of the significant changes and trends in the marketplace and can greatly enhance comprehension of the material by illustrating and applying the key marketing concepts. In addition, these real-world examples can help to stimulate student interest and engagement with the material.

MyLab Marketing

The MyLab for Marketing Management provides an effective teaching and learning environment and includes a variety of assignment types, allowing you to **build** your course from scratch or use our pre-built assignments: the choice is yours.

Teach with ease by selecting from a library of teaching tools, from managing sections and administering exams, to linking up MyLab® to your LMS.

Features of MyLab

- **NEW: Interactive Reading Assignments** allow you to assign chapter readings for a grade, holding students accountable, and engaging them through an integrated blend of narrative, and assessment.
- **NEW: An enhanced, dynamic Pearson+ eTextbook** features interactive figures and new "In the News" boxes at the start of each chapter with current articles and industry updates.
- **NEW: AI Study Tool** goes beyond a one-size-fits-all approach to provide individualized support, practice, and feedback that meet the unique needs of every learner. Students can get assistance anytime, anywhere, within the assigned textbook.
- **NEW: Using AI projects** for each chapter provide hands-on practice using AI for specific Marketing tasks. The projects encourage students to get comfortable with AI and gain the skills to succeed in marketing and business.
- **NEW and EXPANDED: Video Assignments and Podcast Assignments** help students connect key course concepts to real-world events.
- **NEW and UPDATED: Mini Sims** put students in professional roles. These real-world business challenges give students practice applying course concepts and making tough business decisions. Two new mini sims expand coverage to Branding and Environmental, Social, and Governance Issues in Marketing.
- **UPDATED: Dynamic Study Modules** pose a handful of questions and then respond to each student's progress in real time. Learners deepen their grasp of concepts as they go.
- **NEW: Marketing Plan Assignments** cover the core aspects of a marketing plan aligned to the Marketing Plan project in the book. The assignments include the use of AI, where applicable, to teach students how to use AI effectively. Rubrics are included to assist with grading.
- **NEW: Learning Catalytics library.** This is Pearson's bring-your-own-device classroom response system that includes new and updated questions aligned to each chapter. Use these customizable questions to engage your students.
- **AACSB Learning Standards:** The assessment materials in this MyLab course are aligned to the eight AACSB Learning Standards.

Visit **www.pearson.com/mylab/marketing** to learn more about MyLab Marketing.

Instructor Teaching Resources

Detailed information and resources are available at **www.pearson.com**.

Acknowledgments

The 17th edition of *Marketing Management* bears the imprint of many people.

From Philip Kotler: My colleagues and associates at the Kellogg School of Management at Northwestern University continue to have an important impact on my thinking: Eric Anderson, Jim Anderson, Robert Blattberg, Ulf Böckenholt, Bobby Calder, Gregory Carpenter, Moran Cerf, Alexander Chernev, Anne Coughlan, David Gal, Kelly Goldsmith, Kent Grayson, Karsten Hansen, Lakshman Krishnamurthi, Angela Lee, Vincent Nijs, Neil Roese, Mohan Sawhney, Louis Stern, Brian Sternthal, Alice Tybout, Florian Zettelmeyer, and Andris Zoltners. I also want to thank the S. C. Johnson Family for its generous support of my chair at the Kellogg School. Completing the Northwestern team are my former deans, Donald P. Jacobs, Dipak Jain, Sally Blount, and Francesca Cornelli who have provided generous support for my research and writing.

Several former faculty members of the marketing department had a great influence on my thinking: Steuart Henderson Britt, Richard M. Clewett, Ralph Westfall, Harper W. Boyd, Sidney J. Levy, John Sherry, and John Hauser. I also want to acknowledge Gary Armstrong for our work on *Principles of Marketing*.

I am indebted to the following coauthors of international editions of *Marketing Management* and *Principles of Marketing*, who have taught me a great deal in adapting marketing management thinking to the problems of different nations: Swee-Hoon Ang and Siew-Meng Leong (National University of Singapore), Chin-Tiong Tan (Singapore Management University), Marc Oliver Opresnik (University of Luebeck, Germany), Linden Brown and Stewart Adam (Deakin University, Australia), Suzan Burton (Macquarie Graduate School of Management, Australia), Sara Denize (University of Western Sydney, Australia), Delphine Manceau (ESCP-EAP European School of Management, France), John Saunders (Loughborough University, United Kingdom), Veronica Wong (Warwick University, United Kingdom), Jacob Hornick (Tel Aviv University, Israel), Walter Giorgio Scott (Universita Cattolica del Sacro Cuore, Italy), Peggy Cunningham (Queen's University, Canada), and Taihong Lu (Sun Yat-sen University, China).

I also want to acknowledge how much I have learned from working with coauthors on more specialized marketing subjects: Alan Andreasen, Christer Asplund, Paul N. Bloom, John Bowen, Roberta C. Clarke, Karen Fox, David Gertner, Evert Gummesson, Michael Hamlin, Thomas Hayes, Donald Haider, David Houle, Hooi Den Hua, Dipak Jain, Somkid Jatusripitak, Hermawan Kartajaya, Milton Kotler, Neil Kotler, Nancy Lee, Sandra Liu, Suvit Maesincee, James Maken, Waldemar Pfoertsch, Gustave Rath, Irving Rein, Eduardo Roberto, Christian Sarkar, Joanne Scheff, Iwan Setiawan, Joel Shalowitz, Ben Shields, Francoise Simon, Robert Stevens, Giuseppe Stigliano, Fernando Trias de Bes, V Kumar, Walter Vieira, Bruce Wrenn, and David Young.

My overriding debt continues to be to my lovely wife, Nancy, who provided me with the time, support, and inspiration needed to prepare this edition. It is truly our book.

From Kevin Lane Keller: I continually benefit from the wisdom of my marketing colleagues at Tuck. I also gratefully acknowledge the invaluable research and teaching contributions from my faculty colleagues and collaborators through the years. I owe a considerable debt of gratitude to Duke University's Jim Bettman and Rick Staelin for helping to get my academic career started and serving as positive role models to this day. I am also appreciative of all that I have learned from working with many industry executives who have generously shared their insights and experiences. Finally, I give special thanks to Punam, my wife, and Carolyn and Allison, my daughters, who make it all happen and make it all worthwhile.

From Alexander Chernev: This book has benefited from the wisdom of many of my current and former colleagues at the Kellogg School of Management at Northwestern University. I owe a considerable debt of gratitude to Philip Kotler, who sparked my interest in marketing management. I am also indebted to Jim Bettman, Julie Edell, Joel Huber, John Lynch, John Payne, and Rick Staelin at the Fuqua School of Business at Duke University for their advice and support at the outset of my academic career. I also would like to thank my current and former MBA, Executive MBA, and PhD students, who helped shape many of the conceptual insights and practical examples presented in this text. Special thanks are due to Alexander Moore for his valuable input and insightful comments, and to Joanne Freeman for her creative editing of the content of this text.

The talented staff at Pearson deserves praise for their role in shaping the 17th edition. We want to thank our product managers Jenifer Niles and Lynn Huddon for their contributions to this revision, We also want to thank our content producer Shweta Jain and vendor project manager Allison Campbell for making sure everything moved along and fell into place in such a personable way, both with the text and with the supplements. We benefited greatly from the superb editorial help of Elisa Rogers, whose insights considerably enhanced this edition.

Finally, special thanks to Keith Richey, who provided expert input on the latest marketing developments throughout the revision process and was an invaluable contributor.

Philip Kotler
Professor Emeritus of Marketing
Kellogg School of Management
Northwestern University
Evanston, Illinois

Kevin Lane Keller
E. B. Osborn Professor of Marketing
Tuck School of Business
Dartmouth College
Hanover, New Hampshire

Alexander Chernev
Professor of Marketing
Kellogg School of Management
Northwestern University Evanston, Illinois

About the Authors

Philip Kotler is one of the world's leading authorities on marketing. He is the S. C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg School of Management, Northwestern University (emeritus). He received his master's degree at the University of Chicago and his PhD at MIT, both in economics. He did postdoctoral work in mathematics at Harvard University and in behavioral science at the University of Chicago.

Dr. Kotler is the author or coauthor of *Principles of Marketing; Marketing: An Introduction; Strategic Marketing for Nonprofit Organizations; Marketing Models; The New Competition; Marketing Professional Services; Strategic Marketing for Educational Institutions; Marketing for Health Care Organizations; High Visibility; Social Marketing; Marketing Places; The Marketing of Nations; Marketing for Hospitality and Tourism; Standing Room Only; Museum Strategy and Marketing; Marketing Moves; Kotler on Marketing; Lateral Marketing; Winning at Innovation; Ten Deadly Marketing Sins; Chaotics; Winning Global Markets; Corporate Social Responsibility; Confronting Capitalism; Democracy in Decline; Advancing the Common Good; Social Media Marketing; Brand Activism; Marketing 5.0; Marketing 6.0;* and *My Adventures in Marketing.*

In addition, he has published over 150 articles in leading journals, including *Harvard Business Review, Sloan Management Review, Business Horizons, California Management Review, Journal of Marketing, Journal of Marketing Research, Management Science, Journal of Business Strategy,* and *Futurist*. He is the only three-time winner of the Alpha Kappa Psi award for the best annual article published in the *Journal of Marketing*.

Professor Kotler was the first recipient of the American Marketing Association's (AMA) Distinguished Marketing Educator Award (1985); he was chosen as the Leader in Marketing Thought by academic members of the AMA (1975) and received the Paul Converse Award (1978). Other honors include the Prize for Marketing Excellence from the European Association of Marketing Consultants and Sales Trainers; Sales and Marketing Executives International's (SMEI) Marketer of the Year (1995); the Distinguished Educator Award from the Academy of Marketing Science (2002); the William L. Wilkie "Marketing for a Better World" Award (2013); the Sheth Foundation Medal for Exceptional Contribution to Marketing Scholarship and Practice (2013); and induction into the Marketing Hall of Fame (2014).

He has received 22 honorary doctoral degrees, among them from Stockholm University, the University of Zurich, Athens University of Economics and Business, DePaul University, the Cracow School of Business and Economics, Groupe H.E.C. in Paris, the Budapest School of Economic Science and Public Administration, the University of Economics and Business Administration in Vienna, and Plekhanov Russian Academy of Economics.

Professor Kotler has been a consultant to many major U.S. and foreign companies, including IBM, General Electric, AT&T, Honeywell, Bank of America, Merck, SAS Airlines, and Michelin. In addition, he has served as chairman of the College of Marketing of the Institute of Management Sciences, a director of the American Marketing Association, a trustee of the Marketing Science Institute, a director of the MAC Group, a member of the Yankelovich Advisory Board, and a member of the Copernicus Advisory Board. He was a member of the Board of Governors of the School of the Art Institute of Chicago and a member of the Advisory Board of the Drucker Foundation. He has traveled extensively throughout Europe, Asia, and South America, advising many companies about global marketing opportunities.

Kevin Lane Keller is the E. B. Osborn Professor of Marketing at the Tuck School of Business at Dartmouth College. Professor Keller has an AB degree in math and economics from Cornell University, an MBA from Carnegie-Mellon University, and a PhD in marketing from Duke University. At Dartmouth, he has taught popular MBA and executive education courses on strategic brand management and marketing management.

Previously, Professor Keller was on the faculty at Stanford University, where he also served as head of the marketing group. Additionally, he has been on the faculty at the University of California at Berkeley and the University of North Carolina at Chapel Hill, was a visiting professor at Duke University and the Australian Graduate School of Management, and has two years of industry experience as marketing consultant for Bank of America.

Professor Keller's areas of expertise include consumer psychology and branding, communications, and marketing strategies. His research has been published numerous times in each of the four of the major marketing journals—the *Journal of Marketing, Journal of Marketing Research, Journal of Consumer Research,* and *Marketing Science*. An academic pioneer in the study of brands and branding, with over 135 published papers, he is one of the most highly cited of all marketing academics worldwide and has received numerous awards for his research accomplishments.

Actively involved with industry, Professor Keller has worked on a host of different types of marketing projects. He has served as a long-time consultant and trusted advisor to marketers for some of the world's most successful brands, including Accenture, American Express, Disney, Ford, Intel, Levi Strauss, Nike, Procter & Gamble, and Samsung. Professor Keller served as an academic trustee for the Marketing Science Institute from 2000 to 2006, as their Executive Director from 2013 to 2015, and as a member of their Executive Committee and Board from 2015–2022. He has also served as an expert witness for top firms such as Amazon, Coca-Cola, DuPont, Ernst & Young, Facebook, Mercedes-Benz, the NFL, Toyota, and Visa.

A popular and highly sought-after speaker, Professor Keller has made keynote speeches and conducted workshops with top executives in a wide variety of forums. He has lectured at over 150 conferences, conventions, seminars, and symposiums all over the world, from Seoul to Johannesburg, from Sydney to Stockholm, and from Sao Paulo to Mumbai. Professor Keller is currently conducting a variety of research studies that address marketing, branding and communication issues. Heralded as the "bible of branding," his textbook, *Strategic Brand Management*, now co-authored with Vanitha Swaminathan, is in its 5th edition and has been adopted at top business schools and leading firms across the globe.

An avid sports, music, and film enthusiast in his so-called spare time, Professor Keller has helped to manage, market, and serve as executive producer for one of Australia's great rock and roll treasures, The Church, as well as American power-pop legends Tommy Keene and Dwight Twilley. He lives in Etna, New Hampshire, with his wife Punam (also a Tuck marketing professor).

Alexander Chernev is a professor of marketing at the Kellogg School of Management, Northwestern University. He holds an MA and a PhD in psychology from Sofia University and a PhD in business administration from Duke University. He is an academic thought leader, speaker, and advisor in the area of marketing strategy and planning, brand management, consumer decision making, and behavioral science.

Professor Chernev has written numerous articles focused on marketing strategy, brand management, consumer behavior, and market planning. His research has been published in the leading marketing journals and has been frequently quoted in the business and popular press, including the *Wall Street Journal*, the *Financial Times*, the *New York Times*, the *Washington Post*, *Harvard Business Review*, *Scientific American*, the *Associated Press*, *Forbes*, and *Bloomberg Businessweek*. He was ranked among the top ten most prolific scholars in the leading marketing journals by the *Journal of Marketing* and among the top five marketing faculty in the area of consumer behavior by a global survey of marketing faculty published by the *Journal of Marketing Education*.

In addition to academic and managerial articles, Professor Chernev has published a number of impactful books—*Strategic Marketing Management: Theory and Practice, Strategic Marketing Management: The Framework, Strategic Brand Management, The Marketing Plan Handbook, The Business Model: How to Develop New Products, Create Market Value, and Make the Competition Irrelevant; Customer Science: Behavioral Insights for Creating Breakthrough Customer Experiences;* and *Kellogg on Marketing*—that have been translated into multiple languages and are used in top business schools around the world.

Professor Chernev has served as an area editor for the *Journal of Marketing*, the *Journal of Consumer Psychology*, and *Journal of Retailing*, and on the editorial boards of leading research journals, including the

Journal of Marketing Research, Journal of Consumer Research, International Journal of Research in Marketing, Journal of the Academy of Marketing Science, and *Journal of Marketing Behavior*.

At the Kellogg School of Management, Professor Chernev teaches marketing strategy, brand management, and behavioral decision theory in MBA, PhD, and executive education programs. He has also taught in executive programs at INSEAD in France and Singapore, at the Institute for Management Development (IMD) in Switzerland, and at Hong Kong University of Science and Technology. He has received numerous teaching awards, including the Core Course Teaching Award, the Kellogg Faculty Impact Award, and the Kellogg Executive MBA Program's Top Professor Award, which he has received 15 times.

In addition to research and teaching, Professor Chernev has served as an academic trustee and a fellow of the *Marketing Science Institute*. He has worked as an expert on high-profile legal cases dealing with issues pertaining to intellectual property, consumer behavior, and marketing strategy. A consummate educator and presenter, Professor Chernev has keynoted presentations at conferences and corporate events around the globe. He advises companies worldwide—from Fortune 500 firms to start-ups—on issues of marketing strategy, brand management, strategic planning, and new-product development, as well as on ways to craft their business models, build strong brands, uncover market opportunities, develop new products and services, and gain competitive advantage.

CHAPTER 1

Defining Marketing for the New Realities

By developing a proprietary hair-care treatment and designing a service experience to empower women, Brazilian company Beleza Natural created a successful business serving the bottom of the socioeconomic pyramid.

Source: Instituto beleza natural

Formally and informally, people and organizations engage in a vast number of activities that we call marketing. In the face of the digital revolution and other major changes in the business environment, effective marketing today is both increasingly vital and radically new. Consider the market success of Beleza Natural.

Beleza Natural was created by two courageous women who ended up revolutionizing the Brazilian beauty market. Zika Assis and Leila Velez grew frustrated by the fact that nearly all hairstyling products on the market catered to people with straight hair and there were no affordable alternatives to serve people with textured hair. Realizing that there might be a business opportunity given that half the population of Brazil is of African ancestry, Assis and Velez set out to find a solution that would bring out the beauty of textured hair. Since neither woman had formal training in developing hair-care products, they developed their formula by trial and error, studying the formulation of existing products and mixing various ingredients in the hope of creating a superior product. They realized that they were on the right track when women began stopping them on the streets to ask how they got their curls so well defined. Convinced that they had found a solution to an acute problem faced by many women, they used all of their savings, including the money from selling Assis's husband's cab, to launch their first hair salon in Rio de Janeiro, called Instituto Beleza Natural: the Institute for Natural Beauty. Over the next decades, Beleza Natural grew from a single store to a national chain of 33 institutes with over 4,000 employees serving 160,000 customers per month. The proprietary hair treatment formula was not the only ingredient in their success. Both Assis and Velez came from favelas, extremely poor neighborhoods in Rio, and they designed their salons to serve women from the lowest social class in Brazil, many of whom worked as maids for wealthy families. For many of Beleza's customers, the entire experience of being served by someone who came from the same background and could empathize with them was transformational, empowering them and giving them a sense of dignity and self-esteem. Beleza's deep understanding of the needs of its customers and the importance of providing them with experiences that transform not only how they look but also how they feel about themselves is a clear example of combining social purpose with business success at the bottom of the socioeconomic pyramid.[1]

Good marketing is no accident. It is both an art and a science, and it results from careful planning and execution using state-of-the-art tools and techniques. Skillful marketers are continually updating classic practices and inventing new ones to find creative, practical ways to adapt to new marketing realities. In this chapter, we lay the foundation for sound marketing practices by reviewing important marketing concepts, tools, frameworks, and issues.

Learning Objectives

After studying this chapter you should be able to:

1.1 Define the scope of marketing.

1.2 Describe the new marketing realities.

1.3 Explain the role of marketing in an organization.

1.4 Illustrate how to organize and manage a modern marketing department.

The Scope of Marketing

Marketing is about identifying and meeting human and social needs in a way that harmonizes with the goals of the organization. When Google recognized that people needed to more effectively and efficiently access information on the internet, it created a powerful search engine that organized and prioritized queries. When IKEA noticed that people wanted good furnishings at substantially lower prices, it created knockdown furniture. These two firms demonstrated marketing savvy and turned a private or social need into a profitable business opportunity.

We can distinguish between the social and managerial definitions of marketing. The social definition describes marketing as a societal process by which individuals fulfill their needs by creating and freely exchanging products and services of value with others. The managerial definition describes marketing as the art and science of identifying, attracting, and retaining customers through creating, delivering, and communicating superior customer value. The concept of value, which is present in both definitions of marketing, is central to **marketing management**. Value creation is the starting point and the ultimate goal of the marketing function in an organization.

Managers sometimes think of marketing as "the art of selling products," and many people are surprised when they hear that selling is *not* the most important part of marketing. Selling is only the tip of the marketing iceberg. Peter Drucker, famed management theorist, put it this way:

> There will always, one can assume, be need for some selling. But the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available.[2]

When Nintendo released its Wii game system, when Apple launched its iPad tablet computer, and when Toyota introduced its Prius hybrid automobile, these manufacturers were swamped with orders. Their success cannot be attributed merely to the great selling skills of retailers. Rather, their runaway success stemmed from designing the right product, based on careful marketing homework about consumers, competition, and all the external factors that affect cost and demand.

Marketing is ubiquitous—it permeates all aspects of society. Specifically, marketing typically involves 10 different domains: goods, services, events, experiences, persons, places, properties, organizations, information, and ideas. Let's take a quick look at these categories.

- **Goods.** Physical goods constitute the bulk of most countries' production and marketing efforts. Each year U.S. companies market billions of fresh, canned, bagged, and frozen food products and millions of cars, refrigerators, televisions, machines, and other mainstays of a modern economy.
- **Services.** As economies advance, a growing proportion of their activities focus on the production of services. The U.S. economy today produces a services-to-goods mix of roughly two-thirds to one-third. Services include the offerings of airlines, hotels, car rental firms, barbers and beauticians, maintenance and repair people, accountants, bankers, lawyers, engineers, doctors, software programmers, and management consultants. Many market offerings mix goods and services, such as a fast-food meal.
- **Events.** Marketers promote time-based events, including major trade shows, artistic performances, and company anniversaries. Global sporting events such as the Olympics and the World Cup are promoted aggressively to companies and fans. Local events include craft fairs, bookstore readings, and farmers' markets.
- **Experiences.** By orchestrating several services and goods, a firm can create, stage, and market experiences. Walt Disney World's Magic Kingdom lets customers visit a fairy kingdom, a pirate ship, or a haunted house. Customized experiences include a week at a baseball camp with retired baseball greats, a four-day rock-and-roll fantasy camp, and a climb up Mount Everest.
- **Persons.** Artists, musicians, CEOs, physicians, high-profile lawyers and financiers, and other professionals often get help from marketers. Many athletes and entertainment personalities have done a masterful job of marketing themselves—talk show pioneer Oprah Winfrey, media personality and socialite Kim Kardashian, and basketball legend Michael Jordan. Management consultant Tom Peters, himself a master at self-branding, has advised each person to become a "brand."
- **Places.** Cities, states, regions, and whole nations compete to attract tourists, residents, factories, and company headquarters. Place marketers include economic development specialists, real estate agents, commercial banks, local business associations, and advertising and public relations agencies. The Las Vegas Convention & Visitors Authority has met with much success with its provocative ad campaign "What Happens Here, Stays Here," portraying Las Vegas as "an adult playground."
- **Properties.** Properties involve intangible rights of ownership to either real property (real estate) or financial property (stocks and bonds). They are bought and sold, and these exchanges require marketing. Real estate agents work for property owners and sellers, or they buy and sell residential and commercial real estate. Investment companies and banks market securities to both institutional and individual investors.

- **Organizations.** Museums, performing-arts organizations, corporations, and nonprofits all use marketing to boost their public image and compete for audiences and funds. Some universities have created chief marketing officer (CMO) positions to better manage their school identity and image, encompassing everything from admission brochures and social media feeds to brand strategy.
- **Information.** Information is disseminated knowledge. It is produced, marketed, and distributed by TV and radio news, newspapers, the internet, think tanks, government and business entities, and schools and universities. Firms make business decisions using information supplied by organizations such as Nielsen, R.R. Donnelley & Sons, Comscore, Gartner, J.D. Power and Associates, GfK, and Ipsos.
- **Ideas.** Social marketers promote such ideas as "Friends Don't Let Friends Drive Drunk" and "A Mind Is a Terrible Thing to Waste." Political parties promote social causes such as gun control, tax reform, and affordable health care. As part of their corporate social responsibility activities, many organizations promote causes and campaigns focused on issues such as poverty, climate change, sustainability, civil rights, social justice, racial discrimination, gender inequality, health care availability, and childhood obesity.

As part of their "World Without Waste" campaign. Coca-Cola is developing its first-ever beverage bottle made from 100% plant-based plastic.

Source: Yakov Oskanov/Shutterstock

There is little margin for error in marketing. Market leaders such as Yahoo!, Blockbuster, and Barnes & Noble that failed to update their business models were obliterated by upstart challengers like Google, Netflix, and Amazon. Firms must constantly move forward. At greatest risk are those companies that fail to carefully monitor their customers' changing needs and competitors' maneuvers and to continually improve their value offerings and marketing strategies to satisfy their employees, stockholders, suppliers, and channel partners.

Innovation in marketing is critical. Imaginative ideas on strategy exist in many places within a company. Senior management should identify and encourage fresh ideas from three generally underrepresented groups: employees with contemporary or diverse perspectives, employees far removed from company headquarters, and employees new to the industry. Each group can challenge company orthodoxy and stimulate new ideas.

British-based RB (formerly Reckitt Benckiser), the maker of Lysol, Woolite, and Air Wick, has been an innovator in the staid household cleaning products industry by generating a third of its sales from products under three years old. Its multinational staff is encouraged to dig deeply into consumer habits and is well rewarded for excellent performance. This approach not only fosters a culture of innovation but also demonstrates how leveraging a wide array of perspectives within an organization can lead to breakthrough products and services that drive market success.

The New Marketing Realities

The marketplace is dramatically different from even a decade ago, with new marketing behaviors, opportunities, and challenges emerging.[3] The new market realities can be divided into three main categories: the market forces that shape the relationships among the different market entities, the market outcomes that stem from the interplay of these forces, and the emergence of holistic marketing as an essential approach to succeeding in the rapidly evolving market.

Figure 1.1 summarizes the four major market forces, three key market outcomes, and four fundamental pillars of holistic marketing that help to capture the new marketing realities. With these concepts in place, we can identify a specific set of tasks that make up successful marketing management and marketing leadership.

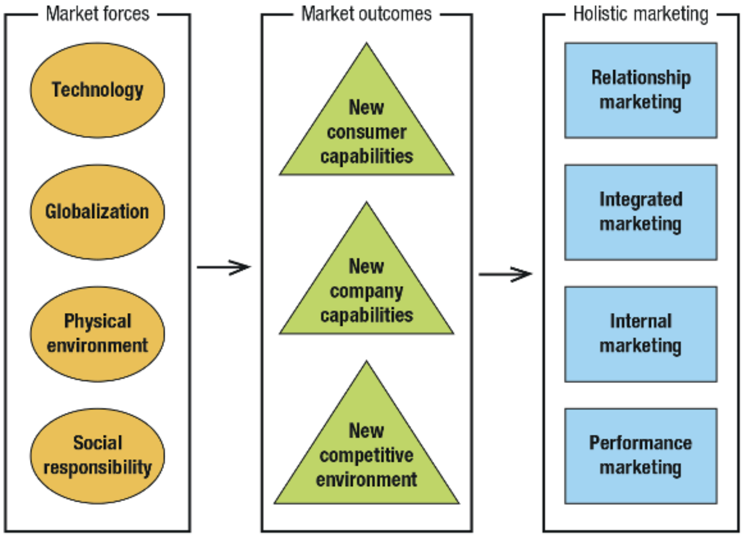
The Four Major Market Forces

The business environment today has been profoundly influenced by four transformative forces: technology, globalization, the physical environment, and social responsibility. These forces together shape the competitive landscape, compelling businesses to adapt and continually innovate. Let's examine these forces and their market impact in more detail.

Technology

The pace of change and the scale of technological achievement can be staggering. The rapid rise of e-commerce, online and mobile communication, cloud computing, and artificial intelligence has offered marketers increasing capabilities. Massive amounts of information and data about almost everything are now available instantaneously to both consumers and marketers.

Figure 1.1 The New Marketing Realities



Technological developments have given birth to new business models that take advantage of the new capabilities stemming from these technologies. Companies like Netflix, Amazon, Airbnb, and Uber that have embraced the new technologies have disrupted markets and become major players in the industries in which they compete.

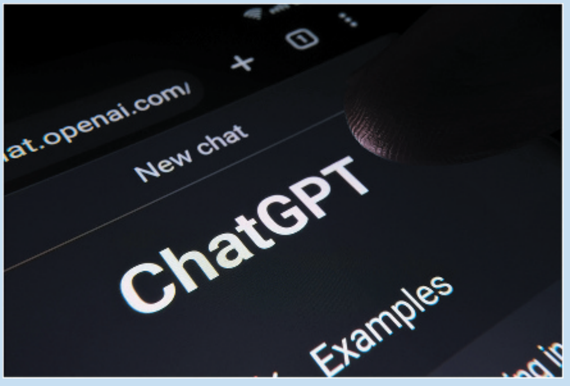
Advances in data analytics, machine learning, and artificial intelligence have enabled companies not only to better understand their customers but also to tailor their offerings to consumers' needs. Exponentially increasing computing power—coupled with complex data algorithms that include natural language processing, object recognition, and affective computing—have provided marketers with unprecedented knowledge about their customers and enabled them to interact with virtually every customer on a one-to-one basis. The growth of data analytics and artificial intelligence platforms have democratized these technologies by making them available to smaller companies that typically would not have had the resources to implement these technologies on their own.

Artificial Intelligence (AI) has revolutionized the marketing landscape by enabling step change improvements in personalization, efficiency, and data analytics, as described in the "AI and Marketing: An Overview" box. AI can automate many operational marketing tasks that previously required human involvement. It also possesses powerful abilities to generate creative assets and enables personalization at scale, whereby assets can be tailored to the preferences of individual consumers, significantly enhancing customer engagement and satisfaction. It provides new ways to connect with consumers, including AI-powered chatbots and virtual assistants that provide 24/7 customer service.

Marketers can use AI to automatically make real-time optimizations to campaigns and experiences, improving performance while reducing operational costs. The rapid development of AI is profoundly changing the business environment, likely creating a competitive advantage for companies that embrace and most effectively incorporate AI into their business models. Simultaneously, it puts those who ignore the AI revolution at a disadvantage. OpenAI is becoming a major force in the adoption and use of artificial intelligence.

OpenAI

Founded in December 2015, OpenAI is an artificial intelligence research company with the goal of promoting and developing friendly AI. OpenAI is well-known for its advancements in natural language processing and machine learning, such as generating human-like text (GPT), generating images from textual descriptions (DALL·E), and creating video from text (Sora). OpenAI's advancements in artificial intelligence have profoundly influenced the corporate landscape, altering the way companies operate across various sectors. By making cutting-edge AI technologies widely accessible, OpenAI has enabled businesses to harness powerful tools for automating complex tasks, refining customer service through chatbots, and generating insightful data analysis for strategic planning. This accessibility has fostered innovation, allowing even small enterprises to leverage AI for competitive advantage, streamlining operations, and creating more personalized customer experiences.[4]



OpenAI, an AI research and deployment company, strives to ensure that artificial intelligence benefits all of humanity. Its ChatGPT (Chat Generative Pretrained Transformer) chatbot became the fastest-growing consumer software application in history, gaining over 100 million users in a little over a month.

Source: Mundissima/Alamy Stock Photo

AI and Marketing: An Overview

The advent of *artificial intelligence* (AI) technology has revolutionized the way companies operate, streamlining processes that previously demanded significant resources. By integrating AI into their operations, businesses are now able to accomplish a wide range of tasks more efficiently and effectively than ever before. These tasks, which once required extensive investment in terms of time, money, and human effort, are now being automated or significantly aided by AI systems.

Many marketing organizations have readily embraced AI. By 2022, a report showed that AI-enabled marketing accounted for 45% of global advertising spending. And according to a 2023 report, 62% of marketers reported their company used AI. At the outset, the application of AI in marketing was largely confined to stand-alone tools, each designed to tackle specific tasks. These tasks ranged from identifying cost-effective strategies to reach target audiences to managing customer interactions to automating personalized marketing campaigns.

Then, a new application of AI, called *generative AI* (GenAI), rose to prominence, starting in 2022, and opened even more possibilities for marketers. GenAI uses sophisticated algorithms to recognize words, images, and formulas, and its capabilities extend to generating text, drawing images, creating video content, and even writing programs.

Experts have identified several key ways that marketers are applying both "traditional AI" and GenAI:

- **Automation.** Marketers use AI to automate previously manual processes and drive gains in productivity and performance. For example, media companies use digital algorithms for developing and personalizing content as well as for moderating online user forums and programmatic ad buying.
- **Research and Analytics.** AI has also been instrumental in forecasting demand, setting pricing strategies, and analyzing marketing effectiveness. Furthermore, it offers invaluable insights into customer behavior and preferences, enabling marketers to refine their messaging and targeting for enhanced relevance and impact. These insights also aid in new product development. For example, Mattel used AI to generate four times as many product concepts for Hot Wheels as it could before.
- **Creation.** GenAI plays a crucial role in content creation for ads and social media. Many advertising agencies use digital algorithms to generate, customize, and distribute online content based on the specific profiles of their target audience. AI models excel in predicting customer responses to marketing initiatives and can tailor campaigns to elicit the desired reaction from individual customers.
- **Connection.** With AI, marketers have a multitude of new ways to build connections with consumers. AI can facilitate innovative forms of interaction, compelling personalized experiences, and creative ways for consumers to participate in a brand's story. As an example, Virgin Voyages' "Jen AI" campaign enabled consumers to create a customized invitation from an AI version of Jennifer Lopez, which they could send to friends and family to invite them on a cruise. The campaign's engagement rate was 150 percent higher than previous campaigns.
- **Optimization.** AI's capabilities extend to real-time adjustment of advertising strategies, allowing for the optimization of campaigns based on ongoing performance metrics and user engagement data. For example, Google offers advertisers a feature to optimize campaign performance by using AI to build "automatically created assets," which complement advertiser-created search ads with search ads that are auto-generated using a company's landing page, existing search ads, keyword group, and user search queries. Google then serves the combination of advertiser-created and automatically created ads predicted to perform best for a given search.

Despite these advancements, the application of AI algorithms is still in its initial stages, suggesting that their full potential remains untapped. Because they are task-specific and usually operate in isolation from one another, most of the current AI applications are tactical in nature: They help improve the tools that a company uses to create market value. Where many of the AI algorithms fall short, at least early in their development, is in the ability to fully take over strategic tasks, such as setting the company's goals, developing a meaningful course of action aligned with these goals, and making sensible tradeoffs in the process. If AI were to become capable of taking on strategic tasks, it would need to learn the relationship between the company's actions and the market impact of these actions. This is no easy task because data is often distributed across many different parts of a company, a company's real goals are often not explicitly stated, not all the company's actions are readily digitized, and the actions of the company's competitors and collaborators are not readily observable.

There are other challenges and risks with the adoption of AI in marketing. If the data that feeds an AI model contains errors or inaccuracies, the outputs of the model will be affected. Even with accurate data, AI models can "hallucinate" and make mistakes or fabricate information, which requires human oversight to mitigate brand risk. Consumers may resist AI–enabled experiences and interactions they perceive as insufficiently human, for example, in customer service or video advertising. AI has also sparked concerns about data privacy and security, copyright of AI outputs, impersonation, and misinformation. In addition, there is much debate about the ethical implications of AI and what it means for society in the long run, since it could negatively impact employment, civil liberties, and even national security.

Given these challenges, at least in the short run, AI is being seen as most effectively utilized as a support tool for higher-level strategic decisions, aiding managerial decision making rather than replacing it. This perspective does not undermine the significant role that AI already plays—and is poised to expand—in marketing. And while AI could revolutionize marketing, this transformation will not necessarily happen overnight. As one observer noted, "the hurdles to broad AI adoption are many," and include regulation, added implementation costs, siloed data, and data security. Still, many experts expect managers will increasingly rely on AI, who will, in turn, inform AI development through their successes and failures.[5]

Globalization

The world has become a level playing field that offers competitors across the globe an equal opportunity to succeed. Geographic and political barriers have been eroded as advanced telecommunication technologies and workflow platforms that enable all types of computers to work together continue to create almost limitless opportunities for communication, collaboration, and data mining. The notion that the world has become a smaller place connecting businesses and customers across the globe is well captured by the phase "The World Is Flat" coined by Thomas Friedman in his book of that name.[6]

Friedman illustrates the impact of globalization with the following example: The person taking your order at a McDonald's in Missouri might be working at a call center 900 miles away in Colorado Springs. She then zaps your order back to the McDonald's so that it's ready minutes later as you drive to the pickup window. Friedman warns of the consequences of ignoring the rapid pace of global advances that will necessitate changes in the way companies do business, including the loss of American jobs to skilled employees who will work for less. In order to succeed in this "flattened" world, the U.S. workforce must continually update its specialized skills and create superior products.

Globalization has made countries increasingly multicultural. Ethnic groups have expanding economic clout, with their buying power growing faster than that of the general population. Demographic trends favor developing markets with populations whose median age is below 25. In terms of growth of the middle class, the vast majority of the next billion people who join the middle class are likely to be Asian.[7]

Globalization sparks innovation and product development as companies take ideas and lessons from one country and apply them to another. After years of little success with its premium ultrasound scanners in the Chinese market, GE successfully developed a portable, ultra-low-cost version that addressed the country's unique market needs. Later, it began to successfully sell the product throughout the developed world for use in ambulances and operating rooms where existing models were too big.[8] Global powerhouses like Nestlé are seizing on opportunities offered by consumers and markets all over the world.

Nestlé

As the world's largest multinational food and beverage processing conglomerate, Nestlé's reach extends to an astonishing 188 countries, showcasing an unparalleled ability to navigate diverse markets and cultures. The company's vast array of products, which include essentials such as baby food, bottled water, cereals, coffee, and pet food, caters to a broad spectrum of consumer needs and preferences across the globe. This extensive presence is not just a testament to the company's commercial success but also reflects its sophisticated supply chains, marketing strategies, and product adaptation capabilities. Nestlé's active engagement in cross-border partnerships and collaborations further underlines its role as a global powerhouse, leveraging international expertise and resources to foster innovation and growth. By tailoring its offerings to meet the nuanced demands of different regions while maintaining high standards of quality and innovation, Nestlé embodies the essence of globalization, demonstrating the complex interplay of local responsiveness and global integration that characterizes today's multinational enterprises.[9]

Headquartered in Vevey, Switzerland, Nestlé's impressive global footprint has helped to make it among the largest publicly held multinational food and drink processing conglomerates.

Source: Bob Pardue - Signs/Alamy Stock Photo

In addition to benefits, however, globalization has several drawbacks. One such drawback is the negative impact of outsourcing on a country's ability to provide jobs to its population as well as on a company's ability to protect its intellectual property such as patents and trade secrets. Another important downside is the susceptibility of globalization to supply chain disruptions caused by environmental (e.g., natural disasters), health (e.g., COVID-19 pandemic), regulatory (e.g., U.S. trade restrictions on technology products to China), and geopolitical (e.g., Russia's invasion of Ukraine) events.

Physical Environment

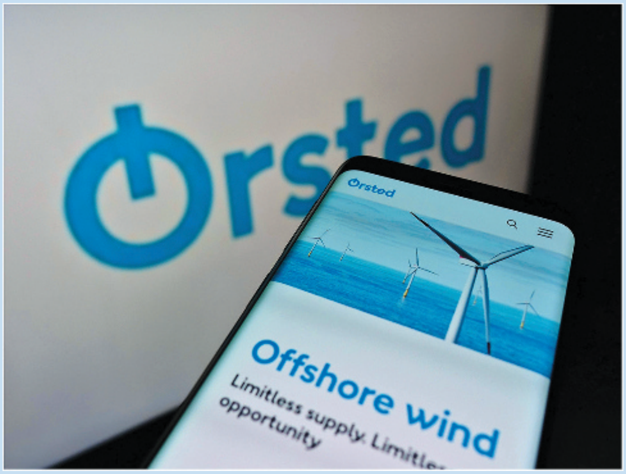
The physical environment in which companies operate has changed dramatically during the past decade. Two particularly far-ranging changes in the physical environment deserve special attention: climate change and changes in global health conditions.

Climate change—a term referring to lasting changes in Earth's global climate as well as changes in regional climates—can have a significant impact on a company's business activities. Climate change is not limited to global warming; it can also involve lower rather than rising temperatures (global cooling). In addition, the effects of climate change go beyond lasting changes in the temperature to trigger more frequent and more extreme weather events, fluctuations in humidity and rainfall, and rising sea levels resulting from thermal expansion of ocean waters and unprecedented melting of glaciers and the polar ice caps.

Climate change can have a profound effect on the business models of virtually all companies regardless of their size or the industry in which they operate. For example, an increase in the average annual temperature can lead to lower yields of fruits and vegetables that are accustomed to cooler temperatures and to higher yields of warm-climate vegetation. As the warm season lengthens, warm-weather activities tend to grow, whereas winter sports tend to suffer. Rising sea levels are creating major disruptions in global commerce as well as in people's daily lives. As a result of rising seas and extreme weather caused by climate change, Indonesia's government announced plans to move its endangered national capital from Jakarta to a new location on the island of Borneo. The impact of rising sea levels not only entails frequent flooding; it also means higher rates of erosion, greater damage from storms, and saltwater contamination of drinking water. Some companies are proactively tackling environmental challenges.

Ørsted

Originally one of Europe's most coal-intensive energy companies, Orsted (formerly DONG Energy) has undergone a remarkable metamorphosis, shifting its focus toward becoming a global leader in offshore wind power. This strategic pivot not only highlights the company's dedication to reducing its carbon emissions but also underscores its belief in the importance of pioneering the transition towards renewable energy sources. By investing heavily in offshore wind farms, Orsted has significantly cut down on its reliance on fossil fuels, contributing to the global effort to mitigate climate change. It aims to achieve net zero generation by 2025 and no carbon emissions by 2040. This transition not only positions Orsted at the forefront of the energy revolution but also illustrates the feasibility of shifting from traditional energy sources to more sustainable alternatives. Through its actions, Orsted has reduced its environmental footprint and also set a precedent for the industry, proving that economic growth and environmental stewardship can go hand in hand.[10]



The largest energy company in Denmark, Ørsted A/S is the world's largest developer of offshore wind power by number of built offshore wind farms.

Source: Timon Schneider/Alamy Stock Photo

Health conditions range from short-term illnesses that are confined to a particular geographic area to pandemics that spread across the globe. Changes in health conditions can influence not only the operations of pharmaceutical, biotechnology, and health management companies but also companies that are not directly related to health care. Pandemics, such as avian influenza and swine flu, can have a profound effect on all areas of business, including food, tourism, hospitality, and transportation. A truly global pandemic such as COVID-19 could effectively paralyze most, if not all, business transactions, leading to a virtual standstill of global commerce. Because the process of globalization and the related increase in global travel have magnified the probability of localized diseases becoming pandemics, managers must be prepared to adapt their business models to account for changing health conditions that threaten their customers, employees, and the company's bottom line.

Social Responsibility

Poverty, pollution, water shortages, climate change, social injustice, and wealth concentration demand our attention. The private sector is taking some responsibility for improving living conditions, and firms all over the world have elevated the role of corporate social responsibility.

Because marketing's effects extend to society as a whole, marketers must consider the ethical, environmental, legal, and social context of their activities. The organization's task is thus to determine the needs, wants, and interests of target markets and satisfy them more effectively and efficiently than competitors, while preserving or enhancing consumers' and society's long-term well-being.

As goods have become more commoditized and consumers have grown more socially conscious, some companies—including The Body Shop, Bombas, Timberland, and Patagonia—have incorporated social responsibility as a way to differentiate themselves from competitors, build consumer preference, and achieve notable sales and profits. In making these shifts in marketing and business practices, firms also face ethical dilemmas and perplexing trade-offs. Consumers may value convenience but find it difficult to justify disposable products or elaborate packaging in a world trying to minimize waste. Increasing material aspirations can defy the need for sustainability. Smart companies are creatively designing with energy efficiency, carbon footprints, toxicity, and disposability in mind.

Bombas

Founded on the principle of addressing the needs of homeless shelters, Bombas Socks has adopted a "one purchased, one donated" model. For every pair of socks sold, Bombas donates a pair to someone in need. Recognizing that socks are among the most requested items in homeless shelters, the company aims to address this need by providing a new pair of socks for every pair sold. Beyond socks, Bombas has expanded its mission to include the donation of t-shirts and underwear as part of their commitment to helping those in need. The company's focus on comfort, durability, and innovation in its products is matched by its dedication to making a positive impact on the community, having donated over 100 million items to date. This commitment to social responsibility is woven into the fabric of their business model, showcasing how companies can make a significant impact on societal issues while also succeeding commercially.[11]

For every item purchased, Bombas donates a clothing item to a homeless shelter or homelessness-related charity.

Source: Patti McConville/Alamy Stock Photo

Now more than ever, marketers must think holistically and craft creative win–win solutions to balance conflicting demands. They must develop fully integrated marketing programs and meaningful relationships with a range of constituents.[12] Besides doing all the right things inside their company, they need to consider the broader consequences in the marketplace, topics we turn to next.

The Three Key Marketing Outcomes

The four major forces shaping today's markets—technology, globalization, the physical environment, and social responsibility—are fundamentally changing the ways consumers and companies interact with each other. These forces provide both consumers and companies with new capabilities while at the same time promoting a more competitive market environment. We discuss these three market outcomes in more detail next.

New Consumer Capabilities

Consumers today have more power at their fingertips than they have ever had in the past. Expanded information, communication, and mobility enable customers to make better choices and share their preferences and opinions with others around the world. The new consumer capabilities involve several key aspects:

- **Consumers can use online resources as a powerful information and purchasing aid.** From home, office, or mobile phone, they can compare product prices and features, consult user reviews, and order goods online from anywhere in the world 24 hours a day, seven days a week, bypassing limited local offerings and realizing significant price savings. They can also engage in "showrooming": comparing products in stores but buying online. Because consumers and other constituents can fast track virtually any kind of company information, firms now realize that transparency in corporate words and actions is of paramount importance.
- **Consumers can use mobile connectivity to search, communicate, and purchase on the go.** Consumers integrate smart phones and tablets into their daily lives. Smart device owners use their mobile phones and tablets to research products, shop for everything from groceries to gifts, contribute to social causes and disaster relief, explore insurance options, send and receive money via online banking platforms, and conduct virtual consultations between doctors and patients and among health care teams in far-flung locations. There are now more mobile subscriptions worldwide (8.58 billion) than people on the planet (7.95 billion).[13] Telecommunications is one of the world's trillion-dollar industries, along with tourism, military, food, and automobiles.

- **Consumers can tap into social media to share opinions and express loyalty.** Social media is an explosive worldwide phenomenon that has changed the way people conduct their everyday lives. Consumers use social media such as Facebook, Instagram, WhatsApp, Snapchat, LinkedIn, and WeChat to keep in touch with family, friends, and business colleagues; tout products and services; and even engage in politics. Personal connections and user-generated content thrive on social media such as X/Twitter, Wikipedia, TikTok, and YouTube. Sites like Dogster for dog lovers, TripAdvisor for travelers, and Allrecipes for at-home cooks bring together consumers with common interests. At Bimmerfest, Bimmerpost, and Bimmerforums, auto enthusiasts talk about chrome rims, the latest BMW model, and where to find a great local mechanic.
- **Consumers can make better decisions.** Generative AI tools such as ChatGPT, Gemini, and Copilot empower consumers by providing instant, intelligent, and interactive communication capabilities that can transform the way they access information, make decisions, and interact with businesses. As a conversational AI, they offer personalized assistance, answering questions, offering advice, and facilitating tasks ranging from simple inquiries about the weather to complex discussions about technical support or product recommendations. This immediacy and depth of interaction enhance consumer empowerment by making knowledge more accessible and decision-making more informed. By democratizing access to information and automating routine interactions, AI significantly enhances consumers' autonomy and efficiency in managing their digital lives.
- **Consumers can actively interact with companies.** Consumers' ability to actively interact with companies offers significant benefits, transforming them from passive recipients of products and services into active participants in the creation and customization of their experiences. Viewing their favorite companies as workshops, consumers can tailor the offerings they receive to their specific desires and needs. By opting to be put on lists, they gain access to a range of marketing and sales-related communications, discounts, coupons, and other special deals, which can lead to considerable savings and more personalized shopping experiences. The use of smartphones to scan barcodes and QR codes enables instant access to a brand's website and detailed product information, enhancing informed decision-making. To this end, many companies have also developed apps that facilitate more effective interaction with customers, offering features such as in-app purchases, customer service chatbots, and personalized recommendations. This direct line of communication not only improves customer satisfaction through more responsive service but also fosters a sense of loyalty and connection between consumers and brands.
- **Consumers can reject marketing they find inappropriate or annoying.** Some customers today may see fewer product differences and feel less brand loyalty. Others may become more price- and quality-sensitive in their search for value. Almost two-thirds of consumers in one survey reported that they disliked advertising. For these and other reasons, consumers' ability to be less tolerant of undesired marketing translates into a more enjoyable and relevant consumption of content. By choosing to screen out online messages, skip commercials, and avoid marketing appeals through the mail or over the phone, consumers are taking control, leading to a media landscape that respects their preferences and time. This shift not only benefits the consumer by reducing frustration and enhancing the quality of their media consumption but also challenges marketers to innovate and create more engaging, valuable, and consent-based communication strategies.
- **Consumers can extract more value from what they already own.** Consumers share bikes, cars, clothes, couches, apartments, tools, and skills. Younger consumers are moving from a world focused on ownership to one focused on access to assets. In a sharing economy, someone can be both a consumer and a producer, reaping the benefits of both roles. This dual role not only enhances their economic flexibility but also promotes a more sustainable use of resources, reducing waste and encouraging the efficient use of assets. Additionally, it fosters community engagement and cooperation, as people come together to share and exchange goods and services. The sharing economy also enables consumers to experience a wider range of products and services than they might otherwise afford, broadening their horizons and enhancing their quality of life.

New Company Capabilities

In addition to enabling consumers, technology, globalization, the physical environment, and social responsibility have also generated a new set of capabilities to help companies create value for their customers, collaborators, and stakeholders. Some of these new company capabilities include the following:

- **Companies increasingly use the internet as their key online communication and distribution channel.** The internet's role as a powerful information and sales channel enables companies to not only disseminate a wide range of content about their products and services but also to engage with consumers on a global scale. This digital presence, exemplified by initiatives like Solo Cup's integration of its online storefronts with its website and Facebook page, simplifies the purchasing process for consumers and enhances brand engagement. Such online platforms provide a unique opportunity for companies to offer individually differentiated goods, which adds a personal touch that can significantly boost customer satisfaction and loyalty. Advances in factory customization, computer technology, and database marketing software have empowered companies to offer highly personalized products, such as M&M candies with customers' names, Wheaties boxes and Jones soda cans featuring personal images, and Heinz ketchup bottles with customized messages. This level of personalization not only differentiates a company's offerings from competitors, but also strengthens the emotional connection between the brand and its customers, leading to increased customer retention and potentially higher sales volumes.

- **Companies can collect fuller and richer market information.** The capacity to collect fuller and richer information about customers, prospects, and competitors affords companies a significant strategic advantage. By leveraging the internet for marketing research, such as arranging focus groups, distributing questionnaires, and collecting primary data in various ways, marketers can gain deep insights into consumer behavior and preferences. This rich data collection enables companies to tailor their offerings more precisely to meet customer needs, enhancing satisfaction and loyalty. The assembly of detailed information on individual customer purchases, preferences, demographics, and profitability allows for highly targeted marketing strategies. Retailers like CVS, Target, and Albertsons utilize loyalty-card data to gain a comprehensive understanding of consumer purchasing patterns, store visit frequency, and other preferences, enabling them to optimize their product assortments and promotional strategies effectively. Recommendation engines, as employed by Netflix, Amazon, Alibaba, and Google, utilize algorithms that analyze purchase and viewing data, search terms, product feedback, and location to generate personalized purchase suggestions. This not only improves the customer experience by making it easier for users to find products and services that match their interests but also significantly boosts sales, with a notable portion of Amazon's purchases stemming from such recommendations.
- **Companies can reach consumers more efficiently.** The ability of companies to reach consumers quickly and efficiently via social media and mobile marketing represents a significant advancement in advertising strategy, enabling the delivery of highly targeted ads, coupons, and information directly to the consumer's fingertips. Utilizing GPS technology to pinpoint a consumer's exact location allows marketers to send personalized messages and offers when they are most relevant, such as reminding them of items on their wish list or providing coupons while they are shopping at the mall. This location-based advertising is particularly effective as it reaches consumers closer to the point of sale, significantly increasing the likelihood of conversion. Additionally, the power of social media and word of mouth marketing cannot be overstated; by recruiting consumers to voluntarily promote products and services they are passionate about, companies can leverage meaningful interpersonal communications to achieve authentic and widespread recognition. This strategy not only enhances brand visibility but also builds trust among potential customers, as recommendations from peers are often more influential than traditional advertising.
- **Companies can improve their cost efficiency.** Corporate buyers can achieve substantial savings by leveraging artificial intelligence to compare sellers' prices and purchase materials at auction or by posting their own terms in reverse auctions. AI algorithms can predict demand more accurately, manage inventory levels dynamically, and identify the most cost-effective routes and methods for shipping and delivery, leading to significant reductions in operational costs. These AI-driven optimizations also contribute to improved accuracy in order fulfillment and enhance the overall quality of service, thereby boosting customer satisfaction. The integration of generative AI into business processes allows for the automation of routine tasks, freeing up human resources to focus on strategic initiatives that can drive further growth and efficiency gains. This dual benefit of cutting costs while simultaneously elevating service standards exemplifies the powerful impact generative AI can have on a company's bottom line and competitive positioning in the market.

New Competitive Environment

The new market forces have not only changed consumer and company capabilities; they have also dramatically changed the dynamics of competition and the nature of the competitive landscape. Some of the key changes in the competitive environment include the following:

- **Deregulation.** Deregulation has significantly reshaped the competitive landscape in many countries, leading to a surge in the number of companies operating in previously regulated industries such as financial services, telecommunications, and electric utilities. This increase in competition has driven firms to innovate and differentiate themselves to attract and retain customers, resulting in better products, services, and technologies. In the United States, the loosening of restrictive laws has not only enabled existing companies to expand their offerings and enter new markets but has also allowed new entrants to challenge incumbents, injecting vitality into the economy. This shift towards deregulation underscores a broader trend towards market liberalization, emphasizing the belief in competition as a key driver of efficiency, innovation, and consumer welfare.
- **Retail transformation.** The retail landscape is undergoing a significant transformation as store-based retailers encounter increasing competition from direct-to-customer startups like Allbirds, Harry's, Stitch Fix, Chewy, and Hello Fresh. These startups, leveraging online platforms and social media, have shifted consumer expectations towards convenience, personalization, and exclusivity, challenging traditional retail models. In response, established retailers such as Nordstrom, Whole Foods, and Target are reimagining the shopping experience by integrating entertainment elements such as coffee bars, live demonstrations, and performances into their physical stores. By focusing on enhancing the customer experience beyond just the transactional aspect of shopping, these traditional retailers are not only attempting to differentiate themselves from online competitors but also fostering a sense of community and connection with their customers. This blend of entertainment and retail, often referred to as "retailtainment," marks a pivotal shift in competitive strategies, illustrating how companies are adapting to the evolving market dynamics and consumer preferences.
- **Disintermediation.** Direct-to-consumer startups such as Warby Parker, Casper, and Away have dramatically altered the competitive landscape by cutting out intermediaries in the traditional flow of goods, directly connecting producers with

consumers. This strategic move not only streamlined the supply chain but also allowed these companies to offer lower prices and more personalized services, challenging the established business models of traditional companies. In response to this shift, traditional firms have adopted a reintermediation strategy, evolving into "brick-and-click" retailers by integrating online services with their physical stores. With the advantage of plentiful resources and established brand names, these traditional companies have repositioned themselves as formidable competitors, often outperforming pure-click firms by offering the convenience of online shopping alongside the tangible benefits of in-store interactions. This competitive response underscores the dynamic nature of the retail sector, where adaptation and innovation are key to maintaining relevance and market share in the face of disruptive business models.

- **Private labels.** The rise of private labels represents a significant shift in the competitive dynamics of the retail industry, challenging established brands as powerful retailers like Trader Joe's, Wegmans, Costco, and Sam's Club create their own store brands that are increasingly seen as equivalent in quality to national brands. These private labels, often offered at a lower price point, have not only allowed retailers to capture higher profit margins but also to cultivate customer loyalty by offering unique products that cannot be found elsewhere. For retailers such as Aldi, where private labels account for close to 80 percent of sales, this strategy has been particularly effective, enabling them to compete aggressively on price while maintaining quality, thereby putting additional pressure on established brands to differentiate themselves. This trend towards private labeling forces national brands to innovate more rapidly and invest in marketing to highlight the distinct value they offer over store brands.
- **Mega-brands.** The emergence of mega-brands, exemplified by giants like Apple and Samsung, has significantly influenced competitive dynamics across multiple industries. These brands have leveraged their strong market positions to extend into related product categories, capitalizing on new opportunities that arise at the intersections of computing, telecommunications, and consumer electronics. This strategy of convergence has not only allowed them to release a continuous stream of innovative products, such as state-of-the-art mobile phones, tablets, and wearable devices, but also to dominate these markets by setting high standards that competitors struggle to match. The ability of these mega-brands to blend technologies and functionalities from different sectors has created a unique platform or ecosystem of products and services, enhancing customer loyalty and making it challenging for new entrants or smaller players to gain a foothold.

The Concept of Holistic Marketing

Holistic marketing recognizes and reconciles the scope and complexities of marketing activities and offers an integrated approach to managing strategy and tactics. **Figure 1.2** provides a schematic overview of four broad components characterizing holistic marketing: relationship marketing, integrated marketing, internal marketing, and performance marketing. We'll examine these major themes throughout this text.

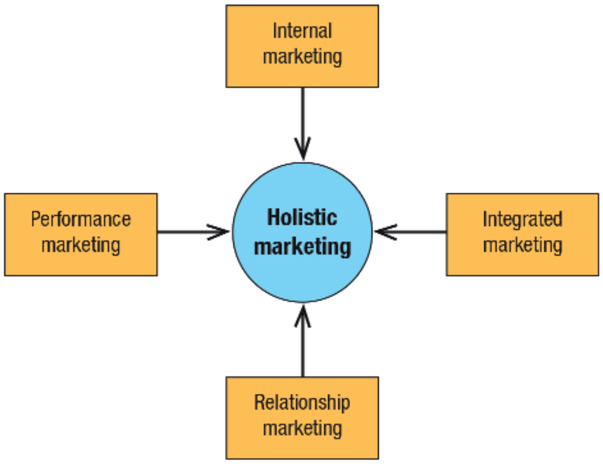


Figure 1.2 The Concept of Holistic Marketing

To succeed, marketing must be more holistic and less departmental. Marketers must achieve wider influence in the company, continuously create new ideas, and strive to gather and use customer insight. They must build their brands more through performance than promotion. They must go electronic and build superior information and communication systems.

The market-value concept calls for a holistic approach to marketing that is focused on building relationships rather than generating transactions; on integrated marketing that is both automated and creative rather than manually managed piecemeal marketing actions; on internal marketing that reflects a strong corporate culture rather than disengaged employees; and on performance-focused marketing that is driven by science rather than intuition.

Relationship Marketing

Increasingly, a key goal of marketing is to develop deep, enduring relationships with people and organizations that directly or indirectly affect the success of the firm's marketing activities. **Relationship marketing** aims to build mutually satisfying long-term relationships with key constituents in order to earn and retain their business.

Four key constituents in relationship marketing are customers, employees, marketing partners (channels, suppliers, distributors, dealers, agencies), and members of the financial community (shareholders, investors, analysts). Marketers must create prosperity among all these constituents and balance the returns for all key stakeholders. Forging strong relationships with constituents requires understanding their capabilities and their resources, needs, goals, and desires.

The ultimate outcome of relationship marketing is a unique company asset called a **marketing network**, which consists of the company and its supporting stakeholders—customers, employees, suppliers, distributors, retailers, and others with whom it has built mutually profitable business relationships. The operating principle is simple: Build an effective network of relationships with key stakeholders, and profits will follow. Thus, more companies are choosing to own brands rather than physical assets and are subcontracting activities to firms that can do them better and more cheaply while retaining core activities. Nike is a prime example: The sportswear giant's "Just Do It" marketing activities emanate from its Oregon headquarters, but it outsources all production to overseas locations. China and Vietnam are the two largest manufacturers of its footwear and clothing, but other plants are located in Indonesia, Thailand, and other Asian countries.

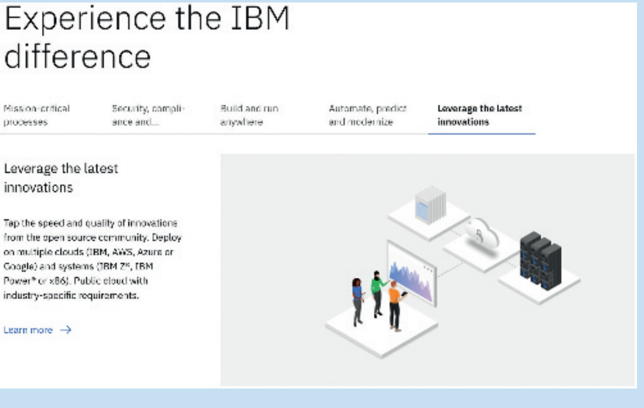
Companies are also shaping separate offers, services, and messages to *individual customers* based on information about their past transactions, demographics, psychographics, and media and distribution preferences. By focusing on their most profitable customers, products, and channels, these firms hope to achieve profitable growth and capture a larger share of each customer's expenditures by building strong customer loyalty. They estimate individual customers' lifetime value and design their market offerings and prices to make a profit over this lifetime.

The Marriott chain provides an excellent example of cultivating customer loyalty. Frequent guests at its hotels and resorts can climb a tiered rewards ladder from the Marriott Rewards basic Member rung to accrue an increasing number of perks and bonus points with Silver Elite, Gold Elite, Platinum Elite, Titanium Elite, and Ambassador Elite levels. After Lifetime status is achieved, it can never be revoked or expire, ensuring that committed customers receive the benefits of the elite status they've attained with each visit.

Marketing must skillfully manage not only customer relationships but partner relationships as well. Companies are deepening their partnering arrangements with key suppliers and distributors, regarding them as allies in delivering value to end customers so that everybody benefits. IBM has learned the value of strong customer bonds.

IBM

Established over a century ago, in 1911, IBM is a remarkable survivor that has maintained market position for decades in the challenging technology industry. The company has managed to evolve and seamlessly update the focus of its products and services numerous times in its history—from mainframes to PCs to its current emphasis on cloud computing, "Big Data," and IT services. Part of the reason is that IBM's sales force and service organization offer real value to customers by staying close to them in order to understand their requirements. IBM often even co-creates products with customers—for example, working with the state of New York to develop a method for detecting tax evasion that reportedly saved taxpayers more than $1.5 billion over a seven-year period. As famed Harvard Business School professor Rosabeth Moss Kanter has noted, "IBM is not a technology company but a company solving problems using technology." Above all, IBM isn't afraid to reinvent itself. Its 2018 acquisition of subsidiary Red Hat, a leading provider of open-source technologies, has helped intensify Big Blue's shifting focus from information technology consulting to products grounded in the burgeoning fields of AI, the hybrid cloud, and cybersecurity. The company's revenue increased in 2022 for the second consecutive year after almost a decade of no growth or slipping sales. IBM is also seen as being on the leading edge of the future of computing—quantum computing. IBM believes that it can save money through sustainable strategies and expects to become carbon neutral by 2030.[14]



IBM has managed to rise to the challenges in the technology field by pivoting its strategic focus to address the needs of the changing environment and by carefully listening to and working closely with its customers.

Source: Reprint Courtesy of IBM Corporation ©

Integrated Marketing

Integrated marketing coordinates all marketing activities and marketing programs and directs them toward creating, communicating, and delivering consistent value and a consistent message for consumers, such that "the whole is greater than the sum of its parts." This requires that marketers design and implement each marketing activity with all other activities in mind. When a hospital buys an MRI machine from General Electric's Medical Systems division, for instance, it expects comprehensive installation, maintenance, and training services to go with the purchase.

An integrated channel strategy should assess each channel option for its direct effect on product sales and brand equity, as well as its indirect effect on interactions with other channel options. All company communications also must be integrated to reinforce and complement one another. A marketer might selectively employ television, radio, and print advertising, public relations events, and PR and website communications so that each contributes on its own benefits and improves the effectiveness of the others. Each must also deliver a consistent brand message at every contact.

Increasingly, marketing is *not* relegated only to the marketing department; every employee has an impact on the customer. Marketers now must properly manage all possible touch points: store layouts, package designs, product functions, employee training, and shipping and logistics. Creating a strong marketing organization means that marketers must think like executives in other departments, and executives in other departments must think more like marketers. Interdepartmental teamwork that includes marketers is necessary to manage key processes like production innovation, new-business development, customer acquisition and retention, and order fulfilment.[15]

Internal Marketing

Internal marketing, an element of holistic marketing, is the task of hiring, training, and motivating able employees who want to serve customers well. Smart marketers recognize that marketing activities within the company can be as important as—or even more important than—those directed outside the company. It makes no sense to promise excellent service unless the company's staff is ready to provide it.

Marketing succeeds only when all departments work together to achieve customer goals: when engineering designs the right products, finance furnishes the right amount of funding, purchasing buys the right materials, production makes the right products in the right time horizon, and accounting measures profitability in the right ways. Such interdepartmental harmony can truly coalesce, however, only when senior management clearly communicates a vision of how the company's marketing orientation and philosophy serve customers. The following hypothetical example highlights some of the potential challenges in coordinating marketing within an organization.

> The marketing vice president of a major European airline wants to increase the airline's traffic share. Her strategy is to build customer satisfaction by providing better food, cleaner cabins, better-trained cabin crews, and lower fares, yet she has no authority in these matters. The catering department chooses food that keeps food costs down; the maintenance department uses inexpensive cleaning services; the human resources department hires people without regard to whether they are naturally friendly and service oriented; the finance department sets the fares. Because these departments generally take a cost or production point of view, the vice president of marketing is stymied in her efforts to create an integrated marketing program.

Internal marketing requires vertical alignment with senior management and horizontal alignment with other departments so everyone understands, appreciates, and supports the marketing effort. For example, the frustrated airline marketing VP might first enlist the help of senior management and department heads by illustrating how mounting a coordinated company effort to enhance the company's image will make a difference in its bottom line. This might be accomplished by making data on competitors available, as well as by compiling customer reviews of their experiences with the airline.

Management's engagement will be central in this integrated marketing effort, which must involve and motivate all employees—from reservations clerks and maintenance workers to catering department employees and cabin crews—by engaging them in a team effort to reinvigorate the airline's mission to provide excellent service. In addition to ongoing employee training that emphasizes customer service, regular internal communications to keep everyone abreast of the company's actions and single out employees who provide outstanding ideas or service can be part of the effort to get the entire company involved.

Performance Marketing

Performance marketing requires understanding the financial and nonfinancial returns to business and society from marketing activities and programs. As noted previously, top marketers increasingly go beyond sales revenue to examine the marketing scorecard and interpret what is happening with market share, customer loss rate, customer satisfaction, product quality, and other measures.

Marketers are increasingly asked to justify their investments in financial and profitability terms as well as in terms of building the brand and growing the customer base. Organizations recognize that much of their market value comes from intangible assets, especially brands, the customer base, employees, distributor and supplier relations, and intellectual capital. Thus, they are applying more metrics—brand equity, customer lifetime value, return on marketing investment—to understand and measure their marketing and business performance and are employing a broader variety of financial measures to assess the direct and indirect value their marketing efforts create.[16]

At the same time, marketers are also increasing their focus on the legal, ethical, social, and environmental effects of marketing activities and programs. When they founded Ben & Jerry's, Ben Cohen and Jerry Greenfield embraced the performance marketing concept by dividing the traditional financial bottom line into a "double bottom line" that also measured the environmental impact of their products and processes. That later expanded into a "triple bottom line" to represent the social impact, negative and positive, of the firm's entire range of business activities.

Consumers are demanding more responsible behavior and penalizing firms that have failed to live up to their legal and ethical responsibilities. Given the new marketing realities, organizations are challenging their marketers to find the best balance of old and new and to provide demonstrable evidence of success. Companies like Patagonia are helping to show the value of blending financial and nonfinancial concerns.

Patagonia

Patagonia, maker of high-end outdoor clothing and equipment, has always put environmental issues at the core of what it does. For example, it offered the first wet suits made from plant-based material as an alternative to neoprene. According to pioneering rock climber, surfer, self-taught blacksmith, and Patagonia founder Yvon Chouinard, every decision he's made that was right for the environment has in the long run made the company money. Patagonia, which he founded in 1973, reflected his and his wife Malinda's beliefs in the importance of balancing financial profitability with a strong commitment to preserving the environment. This unconventional spin on capitalism of always seeking better environmental solutions for everything the company does and makes even when they come at the expense of the bottom line ultimately paid off, generating over $1 billion in annual sales for Patagonia. True to his beliefs in the importance of preserving the environment, in 2022, half a century after founding the company, Yvon Chouinard transferred the ownership of Patagonia, valued at about $3 billion, to a trust and a nonprofit organization. The Patagonia Purpose Trust, which owns all the company's voting stock, equivalent to 2 percent of the outstanding shares, is overseen by Chouinard's family members and aims to ensure that all of the company's profits are used to combat climate change. The Holdfast Collective, a newly established nonprofit organization holding the remaining 98 percent of Patagonia, is the recipient of all the company's profits, using the funds to promote sustainability.[17]

From its inception, Patagonia has striven to successfully balance an acute societal commitment to preserve the environment with its goal of ensuring ongoing benefits for company shareholders.
Source: Sundry Photography/Alamy Stock Photo

The Role of Marketing in the Organization

Marketing plays a crucial role in organizations by ensuring that its offerings meet customer needs and preferences in a way that benefits the organization. It drives business growth by developing and implementing strategies that effectively design, communicate, and deliver the organization's offerings. Marketing also contributes to building and maintaining the organization's reputation, fostering trust and loyalty among its customers. The role of marketing as a tool for creating value for the organization and its customers and strategies for building a customer-centric organization are discussed in more detail in the following sections.

Marketing as Value Creation

A key task for any business is defining the role that marketing will play in the organization. A company must decide what overarching philosophy will guide a company's marketing efforts, determine how to organize and manage the marketing department, and, ultimately, find the best means to build a customer-centric organization that can deliver value to company stakeholders.[18]

What philosophy should guide a company's marketing efforts? Let's first review the evolution of marketing philosophies.

The **production concept** is one of the oldest concepts in business. It holds that consumers prefer products that are widely available and inexpensive. Managers of production-oriented businesses concentrate on achieving high production efficiency, low costs, and mass distribution. This orientation has made sense in developing countries such as China, where the largest PC manufacturer, Legend (principal owner of Lenovo Group), and domestic appliances giant Haier have taken advantage of the country's huge and inexpensive labor pool to dominate the market. Marketers also use the production concept when they want to expand the market.

The **product concept** proposes that consumers favor products offering the highest quality, the best performance, or innovative features. However, managers are sometimes caught in a love affair with their products. They might succumb to the "better-mousetrap" fallacy, believing a better product will by itself lead people to beat a path to their door. As many startups have learned the hard way, a new or improved product will not necessarily be successful unless it is priced, distributed, advertised, and sold properly.

The **selling concept** holds that consumers and businesses, if left alone, won't buy enough of the organization's products. It is practiced most aggressively with unsought goods—goods buyers don't normally think of buying, such as insurance and cemetery plots—and when firms with overcapacity aim to sell what they make rather than make what the market wants. Marketing based on hard selling is risky. It assumes that customers who are coaxed into buying a product not only won't return or bad-mouth it or complain to consumer organizations, but might even buy it again.

The **marketing concept** emerged in the mid-1950s as a customer-centered, sense-and-respond philosophy. The job of marketing is not to find the right customers for your products but to develop the right products for your customers. Dell doesn't prepare a PC or laptop for its target market. Rather, it provides product platforms on which each person customizes the features desired in the machine. The marketing concept holds that the key to achieving organizational goals is being more effective than competitors in creating, delivering, and communicating superior customer value to your target markets. Harvard's Theodore Levitt drew a perceptive contrast between the selling and marketing concepts:[19]

Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering, and finally consuming it.

The **market-value concept** is a holistic approach to marketing based on the development, design, and implementation of marketing programs, processes, and activities that recognize their breadth and interdependencies. The value-based view of marketing acknowledges that everything matters in marketing—and that a broad, integrated perspective is often necessary. Traditionally, marketers played the role of intermediary, charged with understanding customers' needs and transmitting their voice to various functional areas. In contrast, the market-value concept implies that *every* functional area should be actively focused on creating value for customers, the company, and its collaborators.

The market-value concept implies that companies should define their business as a customer-satisfying process rather than in terms of their products or industries. Products are transient; basic needs and customer groups endure forever. Transportation is a need; the horse and carriage, automobile, railroad, airline, ship, and truck are products that meet that need. Viewing businesses in terms of customer needs can suggest additional growth opportunities. **Table 1.1** lists companies that have moved from a product definition to a market-value definition of their business.

Table 1.1 Product-Oriented versus Market-Value-Oriented Definitions of a Business

Company	Product Definition	Market-Value Definition
Union Pacific Railroad	We run a railroad.	We move people and goods.
Xerox	We make copying equipment.	We help improve office productivity.
Hess Corporation	We sell gasoline.	We supply energy.
Paramount Pictures	We make movies.	We market entertainment.
Encyclopedia Britannica	We sell encyclopedias online.	We distribute information.
Carrier	We make air conditioners and furnaces.	We provide climate control in the home.

The market-value view of a company's activities can redefine the market in which a company competes. For example, if Pepsi adopted a product-focused view of its business, it would define its target market as everyone who drinks carbonated soft drinks, and its competitors would therefore be other carbonated soft drink companies. However, if Pepsi adopted a market-value view, it would define its market in much broader terms, targeting everyone who might drink something to quench their thirst. Thus, its competition would also include companies that market noncarbonated soft drinks, bottled water, fruit juices, tea, and coffee.

Building a Customer-Oriented Organization

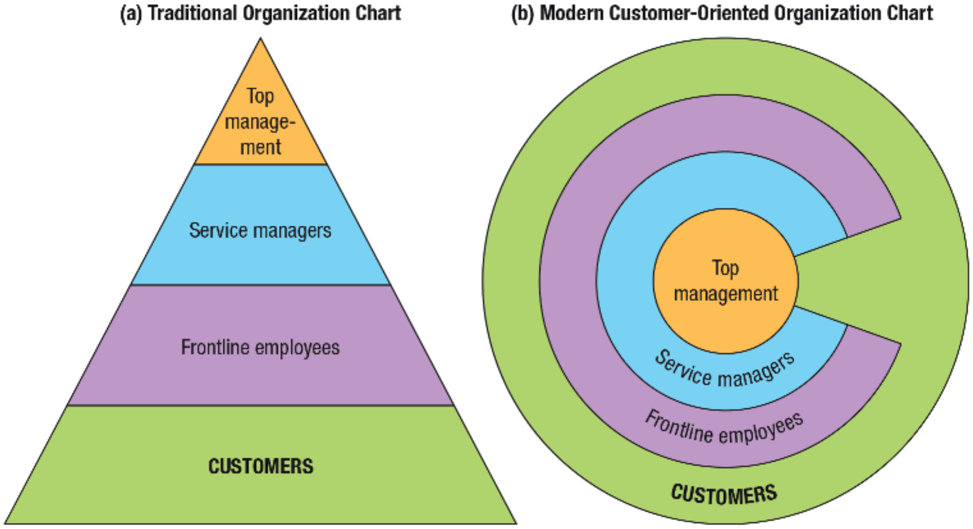
Creating a superior customer experience has become a priority for companies in nearly every industry. The proliferation of products, services, and brands; increased consumer knowledge about market offerings; and consumers' ability to influence public opinion about companies and their offerings—all have underscored the importance of building a customer-oriented organization.

Most companies now realize that the path to creating stakeholder value begins with re-envisioning the organization as focused on creating long-term customer value. In his letter to shareholders, Jeff Bezos defines Amazon's customer-centricity as follows.

> One advantage—perhaps a somewhat subtle one—of a customer-driven focus is that it aids a certain type of proactivity. When we're at our best, we don't wait for external pressures. We are internally driven to improve our services, adding benefits and features, before we have to. We lower prices and increase value for customers before we have to. We invent before we have to. These investments are motivated by customer focus rather than by reaction to competition. We think this approach earns more trust with customers and drives rapid improvements in customer experience—importantly—even in those areas where we are already the leader.

Managers who believe the customer is the company's only true "profit center" consider the traditional organization chart in **Figure 1.3(a)**—a pyramid with the president at the top, management in the middle, and frontline people and customers at the bottom—to be obsolete. Successful marketing companies transform the traditional organization-hierarchy chart to look like the chart in **Figure 1.3(b)**. A company's top priority are customers; next in importance are the frontline people who meet, serve, and satisfy these customers; then come service managers, whose job is to support the frontline people so they can serve customers well; and finally, there is the top management, whose job is to hire and support good service managers.

Figure 1.3 Traditional Organization versus Modern Customer-Oriented Company Organization



The key to developing a customer-oriented company is that managers at every level must be personally engaged in understanding, meeting, and serving customers. **Table 1.2** lists the main characteristics of a customer-centric organization.

Table 1.2 Characteristics of a Customer-Centric Organization

Low Customer-Centricity	High Customer-Centricity
Product driven	Market driven
Mass market focused	Customer focused
Process oriented	Outcome oriented
Reacting to competitors	Making competitors irrelevant
Price driven	Value driven
Hierarchical organization	Teamwork

Some companies have been founded on a customer-focused business model, and customer advocacy has been their strategy—and competitive advantage—all along. With the rise of digital technologies, increasingly informed consumers expect companies to do more than connect with, satisfy, and even delight them. They expect companies to *listen* and *respond* to them.

Traditionally, marketers played the role of intermediary, charged with understanding customers' needs and transmitting their voice to various functional areas of the company. But in a networked enterprise, *every* functional area can interact directly with customers. Marketing no longer has sole ownership of customer interactions; it now must integrate all customer-involving processes so that customers see a single face and hear a single voice when they interact with the firm.

Many companies realize they're not yet really market and customer driven; rather, they are product and sales driven. Transforming into a true market-driven company requires (among other actions) developing a company-wide passion for customers, organizing around customer segments instead of products, and understanding customers through qualitative and quantitative research.

Although it's *necessary* to be customer oriented, it's not *enough*. The organization must also be creative. Companies today copy one another's advantages and strategies with increasing speed, making differentiation harder to achieve and lowering margins as firms become more alike. The best answer to this dilemma is to build capability in strategic innovation and imagination. This capability comes from assembling tools, processes, skills, and measures that let the firm generate more and better new ideas than its competitors.[20] To encourage such capability, companies should strive to put together inspiring work spaces that help stimulate new ideas and foster imagination.

Companies must be alert to trends and stand ready to capitalize on them. Nestlé was late seeing the trend toward coffeehouses, which paved the way for chains such as Starbucks. Coca-Cola was slow to pick up on beverage trends toward fruit-flavored drinks such as Snapple, energy drinks such as Gatorade, and designer water brands. Market leaders can miss trends when they are risk averse, obsessed about protecting their existing markets and physical resources, and more interested in efficiency and profit than innovation. "Marketing Insight: The 10 Deadly Marketing Sins" outlines signs of ineffective marketing and possible solutions.

Marketing Insight

The 10 Deadly Marketing Sins

Focused on their day-to-day activities, many marketers ignore the big picture: designing, communicating, and delivering offerings that create superior market value for their customers, collaborators, and stakeholders. Exhibiting a number of "deadly sins" signals that the marketing program is in trouble. Here are 10 deadly sins, the telltale signs, and some solutions.

Deadly Sin 1: The company is not sufficiently market focused and customer driven.

- *Signs:* There is evidence of poor identification and poor prioritization of market segments. There are no market segment managers, no employees who think it is the job of marketing and sales to serve customers, no training program to create a customer culture, and no incentives to treat the customer especially well.
- *Solutions:* Use more advanced segmentation techniques, prioritize segments, specialize the sales force to serve each market segment, develop a clear statement of company values, foster more "customer consciousness" in employees and company agents, make it easy for customers to reach the company, and respond quickly to any customer communication.

Deadly Sin 2: The company does not fully understand its target customers.

- *Signs:* The latest study of customers is three years old, customers are not buying your product like they once did, competitors' products are selling better, and there is a high level of customer returns and complaints.
- *Solutions:* Conduct more sophisticated consumer research, use more analytical techniques, establish customer and dealer panels, use customer relationship software, and engage in data mining.

Deadly Sin 3: The company needs to better define and monitor its competitors.

- *Signs:* The company focuses on near competitors, misses distant competitors and disruptive technologies, and has no system for gathering and distributing competitive intelligence.
- *Solutions:* Establish an office to collect competitive intelligence, hire competitors' employees, watch for technology that might affect the company, and prepare offerings like those of competitors.

Deadly Sin 4: The company does not properly manage relationships with stakeholders.

- *Signs:* Employees, dealers, and investors are not happy, and good suppliers are reluctant to partner with the company.
- *Solutions:* Move from zero-sum thinking to positive-sum thinking, and do a better job of managing employees, supplier relations, distributors, dealers, and investors.

Deadly Sin 5: The company is not good at finding new opportunities.

- *Signs:* The company has not identified any exciting new opportunities for years, and the new ideas the company has launched have largely failed.
- *Solutions:* Set up a system for stimulating the flow of new ideas.

(*continued*)

Deadly Sin 6: The company's marketing planning process is deficient.

- *Signs:* The marketing plan format does not have the right components, there is no way to estimate the financial implications of different strategies, and there is no contingency planning.
- *Solutions:* Establish a standard format including situational analysis, SWOT, major issues, objectives, strategy, tactics, budgets, and controls; ask marketers what changes they would make if they were given 20 percent more or less budget; and run an annual marketing awards program with prizes for best plans and performance.

Deadly Sin 7: Product and service policies need tightening.

- *Signs:* There are too many products and many are losing money, the company is giving away too many services, and the company is poor at cross-selling products and services.
- *Solutions:* Establish a system to track weak products and fix or drop them, offer and price services at different levels, and improve processes for cross-selling and up-selling.

Deadly Sin 8: The company's brand-building and communication skills are weak.

- *Signs:* The target market does not know much about the company, the brand is not seen as distinctive, the company allocates its budget to the same marketing tools in much the same proportion each year, and there is little evaluation of the ROI impact of marketing communications and activities.
- *Solutions:* Improve brand-building strategies and measurement of results, shift money into effective marketing instruments, and require marketers to estimate the ROI impact in advance of funding requests.

Deadly Sin 9: The company is not organized for effective and efficient marketing.

- *Signs:* Staff lacks 21st-century marketing skills, and there are bad vibes between marketing/sales and other departments.
- *Solutions:* Appoint a strong leader to build new skills in the marketing department and improve relationships between marketing and other departments.

Deadly Sin 10: The company has not made maximum use of technology.

- *Signs:* There is evidence of minimal use of the internet, the sales automation system is outdated, and there are no market automation, no decision-support models, and no marketing dashboards.
- *Solutions:* Use the internet and employ AI more, improve the sales automation system, apply market automation to routine decisions, and develop formal marketing decision models and marketing dashboards.[21]

Organizing and Managing the Marketing Department

The structure of the marketing department plays a major role in a company's ability to create market value. Company success is determined not only by the skills of the individual marketers but also, and to a large degree, by the way the marketers are organized to create a high-performing marketing team. In this context, organizing and managing the marketing department are of utmost importance in creating a modern marketing organization.

Organizing the Marketing Department

Modern marketing departments can be organized in a number of different, sometimes overlapping ways: functionally, geographically, by product or brand, by market, or in a matrix.

Functional Organization

In the most common form of marketing organization, functional specialists report to a chief marketing officer who coordinates their activities. **Figure 1.4** shows seven specialists. Other specialists might include a marketing planning manager, a market logistics manager, a direct marketing manager, a social media manager, and a digital marketing manager.

The main advantage of a functional marketing organization is its administrative simplicity. However, it can be quite a challenge for the departments to develop smooth working relationships, which can result in inadequate planning as the number of products and markets increases and the functional groups vie for budget and status. The marketing vice president constantly weighs competing claims and faces a difficult coordination problem.

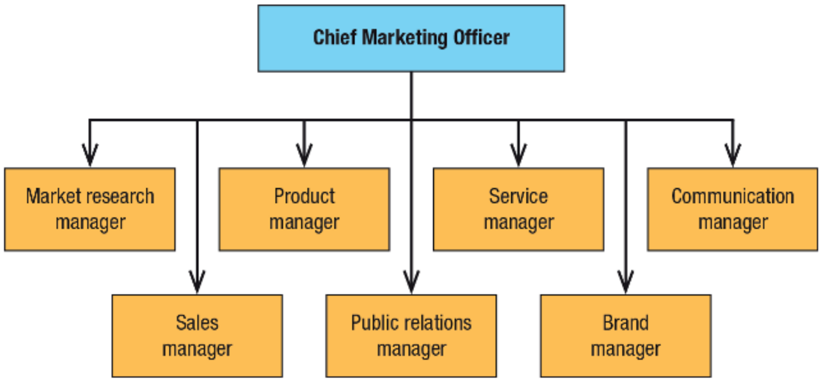


Figure 1.4 Functional Organization

Geographic Organization

A company selling in a national market often organizes its sales force (and sometimes its marketing) along geographic lines. The national sales manager may supervise four regional sales managers, who each supervise six zone managers, each of whom supervises eight district sales managers, who supervise 10 salespeople apiece.

Some companies are adding *area market specialists* (regional or local marketing managers) to support sales efforts in high-volume markets. To illustrate, consider how one such market might work in Miami–Dade County, Florida, where almost two-thirds of households are Hispanic and Latinx. The Miami specialist would know Miami's customer and trade makeup, help marketing managers at headquarters adjust their marketing mix for Miami, and prepare local annual and long-range plans for selling all the company's products there. Some companies must develop different marketing programs in different parts of the country, because geography substantially alters their brand development activities.

Product or Brand Organization

Companies producing a variety of products and brands often establish a product- or brand-management organization. This does not replace the functional organization but serves as another layer of management. A group product manager supervises product category managers, who in turn supervise specific product and brand managers.

A product-management organization makes sense if the company's products are quite different or if there are more products than a functional organization can handle. This form is sometimes characterized as a hub-and-spoke system. The brand or product manager is figuratively at the center, with spokes leading to various departments representing working relationships (see **Figure 1.5**).

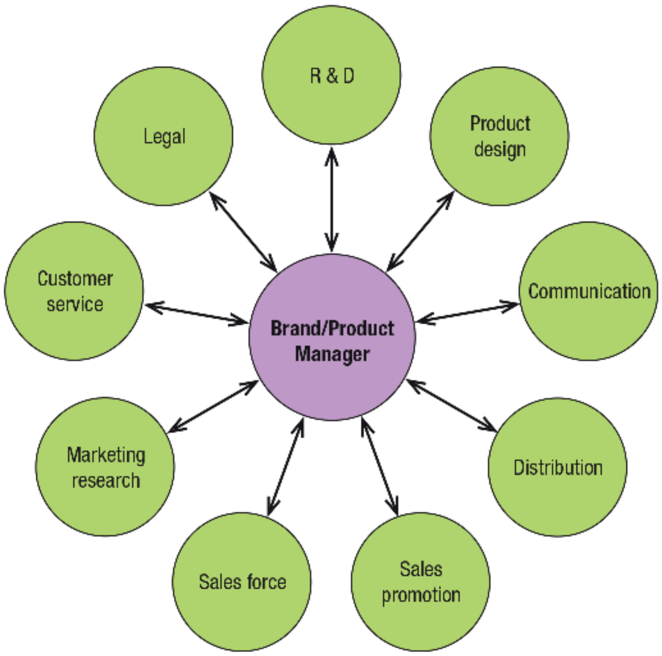


Figure 1.5 The Brand/Product Manager's Interactions

Chiquita teamed up with General Mills to jointly promote their brands of bananas, yogurt, and cereal in breakfast bowls for consumers.

Source: PhotoSG/Alamy Stock Photo

A manager's functions include developing a long-range and competitive strategy for the offering; preparing an annual marketing plan and sales forecast; working with advertising, digital, and merchandising agencies to develop copy, programs, and campaigns; managing support of the product among the sales force and distributors; gathering continuous intelligence about the product's performance, customer and dealer attitudes, and new problems and opportunities; and initiating product improvements to meet changing market needs.

The product-management organization lets the product manager concentrate on developing a cost-effective marketing program and react more quickly to new products in the marketplace; it also gives the company's smaller brands a product advocate. But it has disadvantages, too. Product and brand managers may lack authority to carry out their responsibilities. They often become experts in their product area but rarely achieve functional expertise. Another challenge is that brand managers normally manage a brand for only a short time. Short-term involvement leads to short-term planning and fails to build long-term strengths. The fragmentation of markets makes it harder to develop a national strategy. Brand managers must please regional and local sales groups, transferring power from marketing to sales. Another important consideration is that product and brand managers focus the company on building market share rather than customer relationships.

The product-management organization can be structured around the company's products or, alternatively, a company can focus on product categories to manage its brands. Procter & Gamble, a pioneer of the brand-management system, and other top packaged-goods firms have made a major shift to category management, as have firms outside the grocery channel. British multinational alcoholic beverage company Diageo adopted category management to better manage the development of premium brands, including Johnnie Walker, Guinness, Smirnoff, and Baileys, while at the same time helping the firm address the plight of under-performing brands.

Procter & Gamble cited a number of advantages of its shift to category management. The traditional brand-management system had created strong incentives to excel but also internal competition for resources and a lack of coordination. The new scheme was designed to ensure adequate resources for all categories. Another rationale for category management is the increasing power of the retail trade, which has thought of profitability in terms of product categories. P&G felt it only made sense to deal along similar lines.

Mass market retailers and regional grocery chains such as Walmart, Target, and Albertsons embrace category management as a means to define a particular product category's strategic role within the store and address logistics, the role of private-label products, and the trade-offs between product variety and inefficient duplication. In some packaged-goods firms, category management has also evolved into aisle management and encompasses multiple related categories typically found in the same sections of supermarkets and grocery stores.

Skillful category management can have a big impact on sales. Leveraging the positioning of cereals, yogurts, and bananas as healthy breakfast options, Chiquita partnered with General Mills on the "Go Bananas for Breakfast" breakfast bowl campaign through joint promotions, in-store marketing, and other activities to drive sales.[22]

Market Organization

Companies often develop diverse products and services to target distinct target markets. For example, Canon sells printers to consumer, business, and government markets. Nippon Steel sells to the railroad, construction, and public utility industries. When customers fall into different user groups with distinct buying preferences and practices, a market-management organization is desirable. Market managers supervise several market-development managers, market specialists, or industry specialists and draw on functional services as needed. Market managers of important markets might even have functional specialists reporting to them.

Market managers are staff (not line) people, with duties like those of product managers. They develop long-range and annual plans for their markets and are judged by their market's growth and profitability. Because this system organizes marketing activity to meet the needs of distinct customer groups, it shares many of the advantages and disadvantages of product-management systems. Many companies are reorganizing along market lines and becoming market-centered organizations. Xerox converted from geographic selling to selling by industry, as did IBM and Hewlett-Packard.

When a close relationship is advantageous, such as when customers have diverse and complex requirements and buy an integrated bundle of products and services, a customer-management organization that deals with individual customers, rather than with the mass market or even market segments, should prevail. It has been shown that companies organized by customer groups reported much higher accountability for the overall quality of relationships and greater employee freedom to take actions to satisfy individual customers.[23]

Matrix Organization

Companies that produce many products for many markets may adopt a matrix structure employing both product and market managers. The rub is that this choice is costly and often creates conflicts. There's the cost of supporting all the managers and the issue of resolving questions about where authority and responsibility for marketing activities should reside—at headquarters or in the division. Some corporate marketing groups assist top management with overall opportunity evaluation, provide divisions with consulting assistance on request, help divisions that have little or no marketing know-how, and promote the marketing concept throughout the company.

Many companies have reengineered their workflows and have built cross-functional teams that are responsible for each process. This approach is not limited to private enterprises; cross-functional teams can help increase the efficiency and effectiveness of non-profit and government organizations as well. Despite its multiple benefits, the cross-functional approach is not without drawbacks. One of its key disadvantages is the potential lack of clear focus and accountability that stems from the potentially conflicting goals and processes of the different teams.

Managing the Marketing Department

As David Packard of Hewlett-Packard observed, "Marketing is far too important to leave to the marketing department . . . . In a truly great marketing organization, you can't tell who's in the marketing department. Everyone in the organization has to make decisions based on the impact on the customer." Although marketing activities should not be relegated to a single department, many enterprises can benefit from having an organizational unit that is in charge of all company marketing activities and manages day-to-day operations.

The Role of the CEO and CMO

Only a select group of companies have historically stood out as master marketers. These companies focus on the customer and are organized to respond effectively to changing needs. They all have well-staffed marketing departments, and their other departments accept that the customer is king. They also often have strong marketing leadership in the form of a successful CEO and CMO.

CEOs recognize that marketing builds strong brands and a loyal customer base, intangible assets that contribute heavily to the value of a firm. Many firms, including service and nonprofit firms, now have a chief marketing officer to put marketing on a more equal footing with other C-level executives such as the chief financial officer and the chief information officer.

What steps can a CEO take to create a market- and customer-focused company? To create a true marketing organization, the CEO must convince senior management of the importance of being customer focused. It is also important that the CEO be able to hire strong marketing talent. Most companies need a skilled chief marketing officer who not only manages the marketing department but also has the respect of, and influence with, the other C-level executives.

Given the rapidly evolving nature of today's markets, the CEO must facilitate the creation of strong in-house marketing training programs to sharpen the company's marketing skills. Many companies, such as McDonald's, Unilever, and Accenture, have centralized training facilities to run such programs. The CEO should also ensure that the company's reward system is aligned with its strategic goal of creating market value by developing a satisfied, loyal customer base. The CEO should personally exemplify strong customer commitment and reward those in the organization who do likewise.

A major responsibility of the CEO is to appoint a chief marketing officer who is ultimately responsible for marketing activities in the organization. The CMO is a member of the C-suite and typically reports to the CEO. The senior marketing managers responsible for various parts of the marketing strategy typically report to the CMO. The CMO leads all marketing functions in the organization, including product development, brand management, communication, market research and data analytics, sales, promotion, distribution management, pricing, and customer service.

In the 21st century, the advancement of digital, online, and mobile marketing has changed the role of the CMO. To effectively manage the marketing functions of the organization, the CMO must also be able to handle digital technologies. The challenge CMOs face is that success factors are many and varied. CMOs must have strong quantitative *and* qualitative skills; they must have an independent, entrepreneurial attitude but work closely with other departments; and they must capture the "voice" of consumers yet have a keen bottom-line understanding of how marketing creates value. Two-thirds of top CMOs think return on marketing investment will be the primary measure of their effectiveness in the next decade.

Perhaps the most important role for any CMO is to infuse a customer perspective in business decisions affecting any customer *touch point* (where a customer directly or indirectly interacts with the company). To this end, a CMO must act as the visionary for the future of the company, build adaptive marketing capabilities, and assume accountability for returns on marketing spending.[24] Today's CMO must be versed in the latest technological innovations and be able to effectively deploy them to help the company achieve its strategic goals.

For example, Autodesk's CMO Dara Treseder's efforts to expand the software company's brand beyond its core audience of architects and engineers has involved its first major TV ad campaign in a decade and extensive PR and online story-telling around some of its more notable applications, such as the restoration of the Notre Dame cathedral. Internally, she has aligned all of these activities around a shared corporate strategy, contributing to the double-digit growth the company experienced.[25]

Modern CMOs, like Autodesk's Dara Treseder, must find creative ways to engage their customers and build their brands.

Source: AWNewYork/Shutterstock

Relationships with Other Departments

The firm's success depends not only on how well each department performs its work, but also on how well the company coordinates departmental activities to conduct core business processes. Under the marketing concept, all departments need to "think customer" and work together to satisfy customer needs and expectations. Yet departments define company problems and goals from their own viewpoints, so conflicts of interest and communication problems are unavoidable.

The marketing vice president or the CMO must usually work through persuasion, rather than through authority, to coordinate the company's internal marketing activities and coordinate marketing with finance, operations, and other company functions to serve the customer. For example, the CFO scrutinizes the CMO's budget and may complain to the CEO that better measures of marketing's impact on sales and profits are needed. A smart CMO will work closely with the CFO to jointly ensure that the company has good measures of marketing's ROI.

Many companies now focus on key processes rather than on departments because departmental organization can be a barrier to smooth performance. They appoint process leaders who manage cross-disciplinary teams that include marketing and salespeople. Marketers thus may have a solid-line responsibility to their teams and a dotted-line responsibility to the marketing department.

Given the goal of providing positive customer experiences from start to finish, all areas of the organization need to work together effectively. In particular, because of the growing importance of understanding the needs of individual customers, marketers must work closely with the customer insights and data analytics teams. Furthermore, to be able to reach consumers in an effective and cost-efficient manner, marketers must work closely with different communication agencies—from traditional advertising agencies to social media, publicity, and event-management companies. Finally, to be able to deliver the company's offerings to the right place at the right time, marketers must work closely with a company's channel partners, both in the brick-and-mortar and e-commerce spheres.

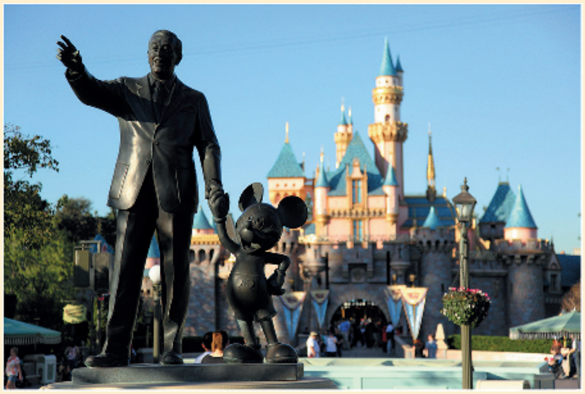
Summary

1. Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the company, its customers, and its collaborators. Marketing management is the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value.
2. Companies aim to create value by marketing goods, services, events, experiences, persons, places, properties, organizations, information, and ideas. Firms must constantly move forward. At greatest risk are those companies that fail to continually improve their value offerings and marketing strategies.
3. Today's marketplace is fundamentally different as a result of four major societal forces that have resulted in many new consumer and company capabilities. In particular, technology, globalization, the physical environment, and social responsibility have created new opportunities and challenges and have significantly changed marketing management. Companies seek the right balance of tried-and-true methods with breakthrough new approaches to achieve marketing excellence.
4. The holistic marketing concept is based on the development, design, and implementation of marketing programs, processes, and activities that are grounded on breadth and interdependencies. Holistic marketing recognizes that everything matters in marketing and that a broad, integrated perspective is often a necessity. The four components of holistic marketing are relationship marketing, integrated marketing, internal marketing, and performance marketing.

5. There are five competing philosophies by which organizations can choose to conduct their business: the production concept, the product concept, the selling concept, the marketing concept, and the market-value concept, an example of holistic marketing. The more sophisticated a company's understanding of the market, the more likely that it will adopt the market-value concept as a holistic approach to doing business.
6. Companies use different approaches to organize the marketing department: functional, geographic, product/brand, market, and a matrix structure. The choice of a particular approach depends on the market in which a company operates, its organizational structure, and its strategic goals.
7. Marketing is not conducted by the marketing department alone. To create a strong marketing organization, marketers must think like executives in other departments, and executives in other departments must think more like marketers.
8. A customer-centric company must be market driven rather than product driven, it must aim to cater to individual customer needs rather than mass market needs, and it must strive to make the competition irrelevant rather than merely reacting to competitors' actions. To succeed, a company should focus on delivering superior value to target customers in a way that benefits the company and its collaborators.

Marketing Spotlight

The Walt Disney Company



Source: D. Hurst/Alamy Stock Photo

Few companies have been able to connect with their audience as well as Disney has. Since its founding in 1923, The Walt Disney Company has been synonymous with "fun family entertainment." The company, originally founded by brothers Walt and Roy Disney, stretched the boundaries of entertainment during the 20th century to bring classic and memorable family entertainment around the world. Beginning with simple black-and-white animated cartoons, the company grew into the worldwide phenomenon that today includes theme parks, feature films, television networks, theatre productions, consumer products, and a robust digital business that includes a major streaming platform.

In its first two decades, Walt Disney Productions, as it was then known, was a struggling cartoon studio that introduced its most famous character, Mickey Mouse, to the world. Few believed in Disney's vision at the time, but the smashing success of cartoons with sound and the first-ever full-length animated film, *Snow White and the Seven Dwarfs*, in 1937 led to other animated classics throughout the 1940s, 1950s, and 1960s, including *Pinocchio, Bambi, Cinderella*, and *Peter Pan,* live action films such as *Mary Poppins* and *The Love Bug*, and television series like *Davy Crockett*.

When Walt Disney died in 1966, he was considered the best-known person in the world. Walt had expanded the Disney brand into film, television, publishing, music, consumer products, and Disneyland in southern California—its first theme park, where families could experience the magic of Disney in real life. These expansions yielded what came to be known as the "Disney Difference," where Disney took a piece of intellectual property from one of its divisions and leveraged it across all its other divisions. Mickey Mouse is a classic example. Mickey first appeared in animated films in 1928, and soon after he appeared in comic books and his image was licensed for an array of merchandise. The Mickey Mouse Club television show debuted in the 1955, and when Disneyland opened that same year Mickey was the obvious choice to be the official mascot.

After Walt's death, Roy Disney took over as CEO and realized his brother's dream of opening the 24,000-acre Walt Disney World theme park in Florida. Roy died in 1971, and the two brothers' legacy was a brand that stood for trust, fun, and entertainment and resonated with children, families, and adults, and some of the most moving and iconic characters, stories, and memories of all time. Walt Disney Productions stumbled for a number of years, however, without the leadership of its two founding brothers. The company endured a long drought without a major box-office hit during the 1970s and early 1980s. During this span, it also over-extended the licensing of its characters to the point where it started to dilute the brand. It wasn't until the late 1980s that the company reconnected with its audience and restored trust and interest in the Disney brand.

It all started with the release of *The Little Mermaid*, which turned an old fairy tale into a magical animated Broadway-style movie that won two Oscars. Between the late 1980s and 2000, Disney entered an era known as the Disney Renaissance, as it released ground-breaking animated films such as *Beauty and the Beast* (1991), *Aladdin* (1992), *The Lion King* (1994), *Toy Story* (with Pixar, 1995), and *Mulan* (1998). In addition, the company thought of creative new ways to target its core family-oriented consumers

(*continued*)

and expand into areas that would reach an older audience. In the 1980s, Disney launched the Disney Channel, furthering its ability to connect with children and families on TV, plus new film and TV studios, Touchstone Pictures and Touchstone Television, to enable it to produce content targeting adults with more mature themes. To better reflect the diversity of businesses it now operated, the company changed its name to The Walt Disney Company in 1986.

During the Disney Renaissance, The Walt Disney Company also expanded with the formation of the Disney Publishing Group to consolidate its book and magazine interests, the launch of international theme parks with Tokyo Disneyland and Disneyland Paris, and the release of theatrical productions like the *Lion King* on Broadway. It also made the second-largest acquisition ever up to that point, buying the Capital Cities/ABC media company for $19 billion in 1995. The acquisition added to Disney's stable one of the big three TV networks, ABC, and a host of cable channels including ESPN, A&E and Lifetime. These expansions helped The Walt Disney Company's content and characters reach a variety of audiences around the world, and provided new platforms to leverage for its Disney Difference strategy.

The term "Disney Difference" is also used by the company to refer to its commitment to superlative customer service. In its theme parks, Disney works hard to connect with its customers on a multitude of levels and through every single detail. For example, at Disney World, employee "cast members" are trained to be "assertively friendly" and greet visitors by waving big Mickey Mouse hands, giving maps to adults and stickers to kids, and cleaning up the park so diligently that it's difficult to find a piece of garbage anywhere. Every little magical detail matters to Disney, right down to the custodial workers who are trained by Disney's animators to take their broom and bucket of water and quietly "paint" a Goofy or Mickey Mouse in water on the pavement. It's a touch of magic for the guests that lasts just a minute before it evaporates in the hot sun. The dedication to customer service reflects one of Walt Disney's quotations: "Whatever you do, do it well. Do it so well that when people see you do it they will want to come back and see you do it again and they will want to bring others and show them how well you do what you do."

The Walt Disney Company continued to expand through a series of large acquisitions that gave it more world-class properties to propagate across its platforms. In 2006, soon after Bob Iger became CEO, it purchased Pixar for $7.4 billion, after being the animation studio's distribution partner since the first Pixar movie, *Toy Story*. It acquired Marvel Entertainment in 2009 for $4 billion, giving it the opportunity to expand the Marvel Cinematic Universe with its iconic superheroes like Spider Man, the Avengers, Black Panther, Captain Marvel, and the X-Men. In 2012, Disney paid $4 billion to buy Lucasfilm, owner of the *Star Wars* franchise.

With each of these acquisitions, Disney extended the intellectual property into different contexts, for example with a "Cars on the Road" TV series based on the Pixar *Cars* movies, an Avengers Campus zone at Disney California Adventure theme park, and a series of *Star Wars* video games. As one industry observer notes, "There's plenty to credit Iger and Disney in terms of how those acquired IPs flourished under the Disney umbrella." In 2019, The Walt Disney Company made by far its biggest acquisition ever when it bought rival media company 21st Century Fox for $71 billion. Disney got Fox's film and television studio assets, the animation studio behind the *Ice Age* movies, cable networks National Geographic and FX, a portion of Hulu that it did not already own, and the major Indian TV network Star. The massive deal was polarizing, with critics claiming Disney "materially overpaid" and others calling the deal "brilliant."

With so many brands, characters, and businesses, Disney uses technology to ensure that a customer's experience is consistent across every platform. Disney connects with its consumers in innovative ways through apps, e-mail, blogs, and its website to provide insight into movie trailers, television clips, Broadway shows, and virtual theme park experiences. Disney was one of the first companies to begin regular podcasts of its television shows and to release ongoing news about its products and interviews with Disney's employees, staff, and park officials. The My Disney Experience app is designed to make visiting the theme parks more seamless and convenient, for example by enabling visitors to view wait times, receive a custom itinerary based on their preferences from the Disney Genie, and order food remotely from in-park restaurants, allowing consumers to avoid lines and save time.

Disney launched its streaming service Disney+ in 2019, bringing on-demand content from its vast library of more than 8,000 hours of content and spending billions on new content exclusive to the platform. It rapidly grew to 50 million subscribers within five months, and by 2022 had more than 200 million subscribers across all its streaming platforms, which included ESPN+ and Hulu+. But this growth came at a steep price. By mid-2024, Disney had lost more than $11 billion on its streaming businesses, and at one point was losing $4 billion a year. Wall Street had soured on streaming business models due to their high costs, and Disney's stock price suffered as a result, declining from a high of $197 in March 2021 to $79 in October 2023.

The Walt Disney Company's CEO, Bob Iger, who retired in 2020 but was brought back in the fall of 2022, announced in 2023 a structural reorganization of the company into three core business segments: Disney Entertainment; ESPN; and Disney Parks, Experiences and Products. Disney Entertainment encompasses global film and TV content production operations, as well as Marvel Studios, Pixar, Disney+, Hulu, ABC, the Disney Channel, and other entertainment-related entities. The restructuring was designed to "refocus the organization on creativity, empower creative leaders and ensure they are accountable for all aspects of their businesses globally, and put the company's streaming business on a path to sustained growth and profitability."

A key aspect of The Walt Disney Company's business model and culture is adherence to high standards of corporate social responsibility. Disney is committed to always act ethically, create content and products responsibly, maintain respectful workplaces, invest in communities, and be good stewards of the environment. The company's commitment to "doing well by doing good" has made it one of the world's most admired companies. This commitment also sometimes leads to controversy, as when the company publicly opposed a Florida law that "would limit discussions of sexual orientation and gender identity in schools," after employees and advocacy organizations protested when Disney did not initially take a position. The situation led to a verbal sparring match with Florida Governor Ron DeSantis, illustrating the challenge of navigating a polarized political climate as a truly mass-market brand seeking broad appeal.

The Walt Disney Company's greatest challenge today is to be both timely and timeless. That is, to keep its century-old Disney brand relevant and current, while retaining its core audience and staying true to its heritage and fundamental brand values. Disney's CEO Bob Iger explained, "When you deal with a company that has a great legacy, you deal with decisions and conflicts that arise from the clash of heritage versus innovation versus relevance. I'm a big believer in respect for heritage, but I'm also a big believer in the need to innovate and the need to balance that respect for heritage with a need to be relevant."[26]

Questions

1. How does Disney create value for its customers?
2. How is Disney a good marketer? What have been their keys to marketing success?
3. How can the Walt Disney Company keep the Disney brand timely and timeless?

Marketing Spotlight

Microsoft

Source: Daniel Constante/Shutterstock

Microsoft is the world's most successful software company. Bill Gates and Paul Allen founded it in 1975 with the original mission of having "a computer on every desk and in every home, running Microsoft software." In 2024, Microsoft was the most valuable company in the world, with a market value exceeding three trillion dollars.

In the early 1980s, Microsoft developed the DOS operating system for IBM computers. The company leveraged this initial success to sell software to other manufacturers, quickly becoming the default operating system for PCs. Initial advertising efforts communicated the company's range of products, from DOS to Excel and Windows, and unified them under the Microsoft brand.

Microsoft went public in 1986 and grew tremendously over the next decade as the Windows operating system and Microsoft Office took off. In 1990, Microsoft launched Windows 3.0, a completely revamped version of its operating system. It was an instant success; Microsoft sold more than 10 million copies of the software within two years. In addition, Windows 3.0 became the first operating system to be preinstalled on certain PCs, marking another major milestone for the industry and for Microsoft.

Throughout the 1990s, Microsoft spent millions on magazine advertising and received endorsements from the top computer magazines in the industry, and Microsoft Windows and Office became the must-have software of their time. The 1998 slogan, "Where Do You Want to Go Today?," promoted not individual Microsoft products like Windows 98 but rather the company itself, communicating that Microsoft could help empower companies and consumers alike. This messaging foreshadowed the company's current mission statement "To empower every person and every organization on the planet to achieve more," which was introduced in 2015.

During the mid-1990s, Microsoft entered the notorious "browser wars" as companies fought for their place during the Internet boom. Realizing what a good product Netscape had in its 1995 Navigator browser, Microsoft launched its own browser, Internet Explorer, later the same year. It bundled Internet Explorer with Microsoft Office, partnered with AOL to open the doors to 5 million new consumers almost overnight, and made Internet Explorer available for free, essentially "cutting off Netscape's air supply." By 2002, Netscape's market share had fallen to a mere 4 percent, compared with 95 percent for Microsoft.

Microsoft's fight to become the browser leader was not without controversy; some perceived that the company was monopolizing the browser category. As a result, Microsoft faced antitrust charges in 1998 and numerous lawsuits based on its marketing tactics. Charges aside, the company's stock took off, rising to $60 per share in 1999. Microsoft continued to release new products, including Windows 2000 in 2000 and Windows XP in 2001. It also launched Xbox in 2001, marking its entrance into the multibillion-dollar gaming industry.

(*continued*)

Over the next several years, however, Microsoft's stock price tumbled by more than $40 a share as consumers waited for the next operating system to be released. During this time, Apple made a strong comeback with consumer-friendly products like Mac computers, iPods, iPhones, and iTunes. Apple also launched a successful marketing campaign that came to be known as "Mac vs PC," featuring a smart, creative, easygoing Mac character alongside a geeky, virus-prone, uptight PC character. Apple's campaign successfully converted many consumers and tarnished Microsoft's brand image. In 2007, Microsoft launched the Vista operating system to great expectations; however, it was plagued by bugs and problems and the company's stock and image continued to slide.

In response to these setbacks, Microsoft launched new products, created new campaigns, and built its own branded retail stores. In direct response to Apple's "I'm a Mac" ads, Microsoft launched a series of commercials that boasted, "I'm a PC" and featured a wide variety of individuals who prided themselves on being PC owners, hoping to improve employee morale and customer loyalty. When Microsoft launched Windows 7 in 2009, it extended the "I'm a PC" campaign theme with the line "I'm a PC and Windows 7 was my idea" to highlight how it incorporated user feedback to improve the performance issues of the previous generation Vista operating system. That same year, Microsoft went after Google's dominant position in the search marketplace, with the Bing search engine. In 2009, it entered the growing mobile industry with its Windows Phone mobile operating system. While ultimately not successful, the Windows Phone did lay the groundwork for the Surface family of touchscreen tablets and laptops, which first launched in 2012 and grew to $7 billion in revenue within a decade.

In 2009, it opened its first Microsoft Store retail location, responding to Apple's success with the Apple Store. Four years later, it was operating more than 30 stores like Apple's across the United States and Canada. Travis Walter, general manager of Microsoft's International and New Store Formats, agreed, "In person, you get a very different experience and it's one we've been very delighted to provide. When you see our technology in person—when you can touch and feel it—a light goes off." Despite its new products, new campaigns, and new stores, Microsoft's stock price rose by only 30% from 2010 to 2013, while the S&P 500 index grew 60% and other tech giants like Apple, Netflix and Amazon saw their stock triple, or better, during that period.

In 2014, Satya Nadella became the third CEO in Microsoft's history. He is credited with retooling Microsoft's strategy and refreshing its culture, leading to a period of unprecedented growth. With Nadella's leadership, Microsoft positioned itself at the forefront of each of the two major tech innovations of the past decade: Cloud computing and AI. In cloud computing, the unit Nadella ran before being promoted to CEO, Microsoft developed its Azure suite of cloud products, quickly earning and maintaining its position as the second-largest cloud company after Amazon Web Services (AWS). Its strong position in cloud strengthened Microsoft's B2B position, giving it another major platform with which to create value for business customers. The company successfully transitioned its classic Outlook, Word, PowerPoint and Excel programs to the cloud, packaging them as the Microsoft 365 online suite. As part of Office 365, Microsoft developed a competitor to the successful team collaboration platform Slack, called Microsoft Teams, which grew to 320 million monthly active users by 2023.

With AI, Microsoft anticipated the disruptive potential of that technology and invested early to build AI into its products for consumers and business customers. Through AI investments like its $13 billion partnership with OpenAI, Microsoft brought generative AI capabilities to its search, Office, Windows, Azure, and Teams products. Microsoft's aggressive pursuit of AI positioned it, as one Wall Street analyst put it, as an "early leader in the artificial intelligence race." Under Nadella, Microsoft also grew via acquisition. In 2016, it acquired LinkedIn, adding a professional social network that eventually exceeded 1 billion members. In 2018, it acquired GitHub, providing Microsoft a platform for software developers. In the consumer space, in 2023 it completed its acquisition of Activision Blizzard game studio, significantly boosting its gaming business.

Today, Microsoft looks very different from how it did in in 2013, the year Nadella became CEO. It competes across a vast range of businesses—software, mobile business, and personal productivity software; social networking; and home entertainment—and has a leadership position in both cloud computing and AI. While it still markets the products that enabled it to dominate the PC era, Windows and Office suite, as of 2024, the Windows 365 cloud version surpassed $1 billion in annual revenue, Office 365 cloud version had 400 million paying subscribers, and both Windows and Office had integrated Microsoft's Copilot AI companion. Wall Street rewarded Microsoft's shift to the cloud and its subsequent embrace of AI, as the stock rose more than 1400% between 2013 and 2024. Microsoft operates in highly competitive categories, amid a complex regulatory environment. Therefore, it will need to continue innovating and evolving to create value for its customers in order to defend and extend its tech leadership position.[27]

Questions

1. What are the core strengths of the Microsoft brand?
2. How is Microsoft a good marketer? What have been their keys to marketing success?
3. What are Microsoft's biggest challenges going forward? What steps should they take to address them?

CHAPTER 2

Marketing Planning and Management

Novo Nordisk disrupted the $450 million weight loss industry with the introduction of two drugs, Ozempic and Wegovy, which established new standards of efficacy and potential success.

Source: Marc Bruxelle/Shutterstock

Developing the right marketing strategies over time requires a blend of discipline and flexibility. Firms must stick to a strategy but also constantly improve it. In today's fast-changing marketing world, identifying the best long-term strategies is crucial. At the core of any successful marketing strategy is the development of an enduring value proposition that addresses a real customer need. One company that has developed a distinct offering designed to address an unmet customer need is Novo Nordisk.

Despite the efforts of the $450 billion weight loss industry, obesity remains a major public health crisis. More than 1 billion people globally have been diagnosed with obesity, and in the U.S., more than 40% of adults and 19% of children have been diagnosed with obesity. Danish diabetes drug pioneer Novo Nordisk, supplier of nearly 50% of the world's insulin, upended the weight loss market when it secured approval for two of its drugs, Ozempic in 2017 and Wegovy in 2021. Although designed for different uses, both drugs contain GLP-1, an ingredient discovered from research on stomach ulcers which "tricks" the body into feeling full, resulting in patients losing up to 15% of their body weight, almost 3x more than what prior drugs could typically do. Market acceptance was immediate and unprecedented. Despite the fact that Novo Nordisk had supply chain challenges to make and deliver the popular drugs, sales of the company grew by almost 30%, 10x the average industry growth rate. Pharma competitor Eli Lilly followed two years later with its Ozempic competitor, Mounjaro, and other drug companies furiously conducted R&D to try to catch up. Weight loss stalwart Weight Watchers and newer digital entrant Noom formed partnerships with drug providers to expand their diet and health offerings. Even gyms found themselves pivoting to accommodate changing consumer behavior. Although the new weight loss drugs siphoned away customers who might have gone to gyms to lose weight, one of the common side effects was muscle loss, so gyms began to emphasize their advantages in keeping and building muscles. Although many potential obstacles still exist for Novo Nordisk and other pharma leaders in the category—weight loss drugs are expensive and their long-term positive and negative effects are still relatively unknown—analysts estimate the category could be worth more than $100 billion by 2032. Novo Nordisk is looking beyond just weight loss, however, as a new company mission is to find ways to stop obesity from occurring in the first place.[1]

This chapter begins by examining some of the strategic marketing implications involved in creating customer value. We'll look at several perspectives on planning and describe how to draw up a formal marketing plan.

Learning Objectives

After studying this chapter you should be able to:

- 2.1 Identify the key tasks required for company and business unit planning.
- 2.2 Describe the process of developing a market offering.
- 2.3 Explain the process of marketing planning.
- 2.4 Define the key components of an actionable marketing plan.
- 2.5 Outline how and when to modify the marketing plan.

Corporate and Business Unit Planning and Management

To ensure that they execute the right activities, marketers must prioritize strategic planning in three key areas: managing the company's businesses as an investment portfolio, assessing the market's growth rate and the company's position in that market, and developing a viable business model. The company must develop a game plan for achieving the long-run objectives of each business unit.

Generally speaking, marketing planning and management can occur on three different levels: corporate, business unit, and specific market offering. Corporate headquarters is responsible for designing a corporate strategic plan to guide the whole enterprise. It makes decisions on the amount of resources to allocate to each business unit, as well as on which businesses to start or eliminate. Each business unit develops a plan to carry that business unit into a profitable future. Finally, each market offering involves a marketing plan for achieving its objectives (**Figure 2.1**).

Figure 2.1 The Strategic Planning Processes

This section addresses the key issues involved in analyzing, planning, and managing a company or distinct business units. In this context, a company undertakes three planning activities: defining the corporate mission and culture, establishing strategic business units, and assigning resources to each strategic business unit. We'll briefly look at each process.

Defining the Corporate Mission and Culture

An organization exists to accomplish an objective: make cars, lend money, provide a night's lodging. Over time, the mission may change to respond to new opportunities or market conditions. Amazon changed its mission from being the world's largest online bookstore to aspiring to be the world's largest online store; eBay changed from running online auctions for collectors to running online auctions that offer all kinds of goods; and Dunkin' switched its emphasis from doughnuts to coffee.

Strategic planning happens within the context of the organization. A company's organization consists of its structures, policies, and corporate culture, all of which can become dysfunctional in a rapidly changing business environment. Whereas managers can change structures and policies (though with difficulty), the company's culture is very hard to change. Yet creating a viable corporate culture is often the key to market success, as the experience of Southwest Airlines shows.

Southwest Airlines

Established in 1967, Southwest Airlines continues to differentiate itself from other airlines with outstanding customer service. At the core of this service is the company's culture, which inspires its roughly 72,000 employees to delight the airline's 125 million passengers annually. By creating an inclusive and fun culture where every team member feels responsible for the success of company, Southwest motivates employees to take pride in their work, which often translates into a superior customer experience. In fact, Southwest ranks its employees first in importance, followed by customers and company shareholders. The airline explains its company culture: "We believe that if we treat our employees right, they will treat our customers right, and in turn that results in increased business and profits that make everyone happy." This supportive environment has helped Southwest create a loyal customer base and become the nation's largest domestic air carrier, with 47 consecutive years of profitability. A long-time member of *Fortune*'s list of World's Most Admired Companies, several technology failures that resulted in massive flight cancellations and a $140 million government fine during the 2022 holiday season was a reminder to the company, however, of the importance of maintaining a strong operational infrastructure.[2]

Southwest Airlines' resolve to stand out from other airlines is based on providing a supportive, inclusive, and fun corporate culture.
Source: LM Otero/AP Images

The **corporate culture** is often defined in terms of the shared experiences, stories, beliefs, and norms that characterize an organization. As researchers Frei and Morriss put it, "Culture guides discretionary behavior and it picks up where the employee handbook leaves off. Culture tells us how to respond to an unprecedented service request. It tells us whether to risk telling our bosses about our new ideas, and whether to surface or hide problems. Culture tells us what to do when the CEO isn't in the room, which is of course most of the time."[3] Walk into any company and the first thing that strikes you is the corporate culture—the way people dress, talk to one another, and greet customers. The corporate culture is often reflected in the company's mission.

A **mission** is a clear, concise, and enduring statement of the reasons for an organization's existence. Often referred to as its *core purpose*, a company's mission is a long-term goal that provides company employees and management with a shared sense of purpose, direction, and opportunity.[4]

To define its mission, a company should address Peter Drucker's classic questions:[5] What is our business? Who is the customer? What is of value to the customer? What will our business be? What should our business be? These simple-sounding questions are among the most difficult a company will ever face. Successful companies continuously ask and answer them.

A clear, thoughtful mission statement, developed collaboratively with managers, employees, and often customers, provides a shared sense of the long-term strategic goal of the company. At its best, it reflects a vision, an almost "impossible dream," that provides direction for the next 10 to 20 years. Sony's former president, Akio Morita, wanted everyone to have access to "personal portable sound," so his company created the Walkman and the portable CD player. Fred Smith wanted to deliver mail anywhere in the United States before 10:30 AM the next day, so he created FedEx.

Consider the following mission statements:

- Organize the world's information and make it universally accessible and useful (Google).[6]
- At IKEA our vision is to create a better everyday life for the many people. Our business idea supports this vision by offering a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them (IKEA).[7]
- Give people the power to build community and bring the world closer together. Our products empower more than 3 billion people around the world to share ideas, offer support and make a difference (Meta, formerly Facebook).[8]
- Accelerate the world's transition to sustainable energy (Tesla).[9]
- With every cup, with every conversation, with every community—we nurture the limitless possibilities of human connection (Starbucks).[10]
- Our mission is to empower every person and every organization on the planet to achieve more (Microsoft).[11]

Good mission statements have five major characteristics.

- **They focus on a limited number of specific goals.** Mission statements containing a laundry list of unrelated activities tend to be less effective than focused mission statements that clearly articulate the organization's ultimate goals.
- **They stress the company's major policies and values.** Narrowing the range of individual discretion lets employees act consistently on important issues.
- **They define the major markets that the company aims to serve.** Because the choice of target market defines a company's strategy and tactics, it should be defined by and follow from the company's mission statement.
- **They take a long-term view.** The corporate mission defines the ultimate strategic goal of the company; it should be changed only when it ceases to be relevant.
- **They are as short, memorable, and meaningful as possible.** Three- to four-word corporate mantras are typically more effective than long-winded mission statements.

Defining Strategic Business Units

Many large companies manage a portfolio of different businesses, often referred to as strategic business units, each requiring its own strategy. A **strategic business unit (SBU)** has three characteristics: (1) It is a single business, or a collection of related businesses, that can exist separately from the rest of the company; (2) It has its own set of competitors; and (3) It has a manager responsible for strategic planning and profit performance, who controls most of the factors affecting profit.

Strategic business units make up a company's portfolio. Based on the diversity of the individual strategic business units within the portfolio, these units can be defined as specialized or diversified.

A **specialized portfolio** involves SBUs with fairly narrow assortments consisting of one or a few product lines. To illustrate, Ferrari (high-performance sports cars), Glacéau (bottled water), and GoPro (action camcorders) have strategically limited their product mix to a fairly narrow product line.